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Is Taking Flak

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††Use these figures for comparisons.

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Nation's Business®

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Washington, D.C.

THE NATION'S BUSINESS

Fast food is fine, say restaurateurs, but they are not happy about the military getting into the franchise business. (Page 13)



PHOTO: T. MICHAEL REZA

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Mixed signals on next year for business planners; how far should the dollar fall?

13 Washington Roundup

Restaurateurs are not amused by the Pentagon's foray into fast food franchising; another round of recordkeeping; the push for privatization.

16 Small Business Report

Banks, which have always courted large corporate customers, have discovered that small business can be at least as profitable as big business. So bankers are offering an array of services never before available.

34 EPA's Air Force

In one of a number of important business cases this fall, the Supreme Court will decide if the Environmental Protection Agency violates companies' privacy when it takes spy photos from the air.

80 Where I Stand

What are your opinions on a presidential veto of spending bills, charging small business for SBA services, abolishing the 55 mph speed limit?

COVER STORY

Going back to school is a growing trend among executives, particularly in middle management, and colleges are more than happy to offer courses.



PHOTO: T. MICHAEL REZA

24 Bottom Line 101

Executives are going back to school in ever-increasing numbers, and some who aren't going are sending middle managers who work for them. The idea is that continuing education makes for stronger, more flexible companies, better able to face the challenges of today's complex business world. Colleges and universities are taking an entrepreneurial approach themselves, finding a niche in executive education and filling it.

28 Corporate Campuses

Many companies think continuing education for their management people is so important that they have set up large educational facilities of their own.

29 After School Is Out

When the courses are over, are the graduates ready to make real changes at their companies?

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MANAGING YOUR BUSINESS

Trucking companies have made major investments in order to compete in a deregulated environment. Experts say price cutting has bottomed out. (Page 60)

PEOPLE/PERSONAL

MCI's William G. McGowan has shaken up the telecommunications industry by opening it up to competition. (Page 85)

TECHNOLOGY

Portable computers that are really portable may at last fulfill the promise of an office you can take with you. (Page 57)



PHOTO: CRAIG KURNISH—WEST LIGHT

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Advice on running a business from people willing to try new ideas.

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Delegates to the White House Small Business Conference want to make sure more federal research and development money is earmarked for small firms.

41 Wrapping Up Sales

The right package can make the difference for a new product or for an older one that you want to sell to a new consumer group.

60 Special Report: Trucking

The latest trends in the trucking industry, including a separate rundown on the booming sales of light trucks.

78 Franchising

Henry Harper is a physician and entrepreneur. He was sure big changes were coming in health delivery, and when they did, he was ready with MedStop, the first franchised system of walk-in medical centers.



PHOTO: DENNIS BRACK—BLACK STAR

49 Future Pension Shock

Many an executive will find himself retiring in discomfort because of the unfulfilled promise of pension plans. But his company can prevent that at little or no cost.

68 Making It

Cool millions from California Cooler; a growing electronics empire; getting kicks from a footbag; status symbols at bargain prices; sweets for the sweet.

74 Personal Finance

When Bunker Hunt tried to buy up every scrap of silver he could, one side effect was to set the coin collecting world on its edge.

76 For Your Tax File

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77 To Your Health

A death in the office can affect workers deeply. Sensitive handling is essential.

85 Long Distance Operator

The telecommunications industry will never be the same again, thanks to MCI's Bill McGowan, and he has more changes in store for it. Here is a look at the man and how he functions.



PHOTO: T. MICHAEL KEZA

52 Small Company Computing

Smaller businesses will be the major office automation customers for years to come, and suppliers are racing to get in on the action.

56 Sharing The Load

Networks will make business more efficient, but the new technology is slow to catch on.

57 The Electronic Workplace

An office in your lap; that's the promise of small, truly portable computers.

COVER: HUBBELL ASSOCIATES

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America's Next Bicentennial

Americans are great ones for celebrating good round numbers. Other nations also honor various anniversaries, of course, but we make a special thing out of 10 years after Watergate, 20 years after the Voting Rights Act, 40 years after the destruction of Hiroshima. We reenacted Civil War battles a hundred years after Bull Run and Gettysburg. In 1976 we had a national celebration to mark the bicentennial of the Declaration of Independence. That was a great party, with the tall ships, the fireworks and parades.

Now plans are beginning to take shape for what many of us regard as the best and most important birthday of them all. In the summer of 1987 we will mark the 200th anniversary of the convention that met in Philadelphia and drafted our Constitution. In June of 1988 we will celebrate New Hampshire's act of ratification—the triggering act that brought the United States of America into being. Three years later, in December of 1991, we will complete the bicentennial calendar by commemorating ratification of the Bill of Rights.

This Constitution of ours is indeed something to shout about. In an often quoted article in the *North American Review*, Britain's William Gladstone described the American Constitution as "the most wonderful work ever struck off at a given time by the brain and purpose of man." Thomas Macaulay, in contrast, once remarked to an American correspondent that "Your Constitution is all sail and no anchor."

For a third commentary, consider the acidulous view of George Bernard Shaw: "The American Constitution... was not really a constitution, but a Charter of Anarchism. It was not an instrument of government: It was a guarantee to the whole American nation that it should never be governed at all. And that is exactly what the Americans wanted."

Each of the three observations contains a measure of truth. Gladstone may have gone overboard with his superlative "most wonderful." A pretty fair case could be made for Michelangelo's Moses, or the King James Bible, or Beethoven's Third Symphony or Shakespeare's "Hamlet." But beyond ques-

tion, the U.S. Constitution is a work of surpassing political genius. It has worked. It has worked for almost 200 years in reconciling the conflicting interests of a great nation. For all the grousing that goes with our national character, we are a free people. The Bill of Rights has kept us that way.

Yet Macaulay had a point. The fram-

This Constitution of ours is something to shout about.



ers who agreed at Philadelphia upon a supreme law of the land believed they were creating a central government of limited powers. Oh, the legislative and executive branches were to have extensive powers. That was plain: the power to tax, the power to coin money, the power to raise armies, the power to maintain a navy, the power to declare war. But some of the key provisions might fairly be termed "all sail." What was meant by the power "to provide for the general welfare"? Congress was authorized "to make all laws which shall be necessary and proper for carrying into execution the foregoing powers." What was meant by "necessary"? Who was to say what was "proper"?

Shaw was right, too. Something in the American spirit strongly resists regimentation. The aphorism that the

best government is the least government is carved in our hearts—or at least it is carved in our hearts until we want some favor from Washington. It is not a spirit of anarchy that animates our public life. It is rather a healthy suspicion that we are about to be bamboozled. No fewer than 23 of the 50 states have one Republican and one Democrat in the Senate—the better to ensure, as Shaw said, that we should never be governed at all.

As we head for the bicentennial period, it ought not to be overlooked that the Constitution of 1787 and the Constitution of 1987 are two different instruments. I am not thinking especially of the amendments, though the Fourteenth Amendment (if its unwitting sponsors could arise from the grave and speak) has wrought profound and unanticipated changes in our law. I am thinking rather of the judicial gloss that has been applied by our federal judges over the years. John Marshall, the greatest of our Chief Justices, started the process with the Marbury case, and from a states' righters' point of view, it has been downhill ever since. The judiciary, which Alexander Hamilton described as the weakest branch, has become the most powerful branch instead. "We are under a Constitution," said Charles Evans Hughes, and then he added a word of blinding truth: "but the Constitution is what the judges say it is."

We will have much to debate and discuss during the bicentennial period. A national commission, chaired by Chief Justice Warren Burger, belatedly has begun to organize. Sixteen states have their own commissions in operation. The American Bar Association plans an ambitious program of education through radio, television and newspaper supplements. Project '87, funded in large part by the National Endowment for the Humanities, has taken a jump on the field with new constitutional scholarship. The City of Philadelphia will be throwing a louder and longer party than it threw when the Phillies beat Kansas City in the Series of '80.

Half the nations of the world have constitutions less than 10 years old. At 200, ours is the granddaddy of them all. That calls for a real bicentennial bash. Who deserves it more? ■

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LETTERS

Our New Look

I am not given frequently to writing letters to the editor, but I am prompted to respond to the new format of NATION'S BUSINESS. I love it! If ever there was a magazine in need of a change, it was NATION'S BUSINESS. The new look and the clean, crisp, concise way in which the editorial content is presented is a big improvement. I found the September issue very inviting; I was drawn to page after page, until I had read it cover to cover. I have to credit my interest—unusual for me—to the new design and presentation.

*Roger W. Young
President and Chief
Executive Officer
Great Falls Area Chamber
of Commerce
Great Falls, Mont.*

Dressing In The Dark

Re: "A Little More Daylight" [Washington Roundup, September].

Marketing and retail organizations would enjoy having more time each day to ring up a few more sales. But no matter how Congress plays with daylight saving time, there will be only 24 hours in each day.

Most of us start our day between 5 and 6 a.m. and go until we drop, around 10 or 11 p.m., regardless of the hours of daylight. Under daylight saving time, we use more energy in the dark mornings, when energy usage is already high. And for those of us with small children, it is a bother to explain the difference between nature's time and Congress' time. This turns out to be the children's one last excuse for not going to bed each night.

*J.S. Adamo
Celeste, Tex.*

The Underside Of "Reform"

Re: "Strategic Investing" [September].

Your article misrepresents the potential impact of "tax reform" on tax-exempt bonds and on the states, counties and cities that issue them. Radical restrictions have been proposed, and you have not begun to educate your readers as to their scope.

The proposed restrictions would eliminate tax-exempt bond financing for a wide variety of public projects if more than 1 percent of the bond proceeds were used, directly or indirectly, by any

nongovernmental entity. Examples include convention centers, municipal buildings with cafeterias operated by concessionaires, airport terminals, street improvements financed by assessments against large property owners, stadiums and performing arts centers rented to nonprofit opera or ballet companies.

In addition, industrial development financing, used for more than a century to very good effect in terms of job creation, would bite the dust.

The Treasury Department's proposals would eliminate about 80 percent of the \$125 billion municipal bond market. The results of this "reform" would necessarily include higher taxes and user fees at the state and local levels, and a continuing worsening of infrastructure decay.

*Frederick O. Kiel
Past President
National Association of
Bond Lawyers
Cincinnati*

Another Way

Re: "28 Ways To Learn To Run A Business" [August].

There is a 29th way.

Since 1919, Junior Achievement has been helping others step into the future. Whether by instructing them with the aid of computer management simulation in a classroom course called "Applied Economics" or by helping high school students operate their own companies in JA (the original program), or by teaching Project Business to eighth and ninth graders through top corporate executives, Junior Achievement has aided millions of young people in acquiring the skills and qualities you would like to see on a resumé.

*Claudia Barlow
Vice President
Business Marketing
Junior Achievement, Inc.
Stamford, Conn.*

Who Prevents Crime?

Re: "Taking Public Services Private" [August].

Don Hesselbrock, marketing director for Anderson Agency, Inc., is quoted as saying, "Our men are trained to prevent things from happening, while po-

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*Sandy Sanford, Traffic Manager
Adams-Burch, Inc.
Tuxedo, Maryland*

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lice officers are trained to stop crimes in progress or solve them after they have happened."

It is nonsense to suggest that somehow security guards prevent crimes from happening and police officers do not.

Crime prevention is one of the highest priorities in law enforcement. Crime data is analyzed hourly and police officers are assigned to areas where crime is most likely to occur. Officers are trained to stop and question those persons who match suspect profiles. By using this approach to community safety, police officers can arrest suspects about to commit crimes before the crimes occur.

Many crimes are prevented, and far more suspects arrested in this manner, than during crimes in progress.

*Paul Moncur
Captain
Police Department
Culver City, Calif.*

Finding The Children

Thank you most sincerely for devoting magazine space to help in the search for missing children.

This is a problem affecting hundreds of thousands of families throughout the nation. As Gabriella Mistral wrote, "We are guilty of many errors and many faults, but the worst crime is abandoning the children, neglecting the foundation of life." Our children truly are the "nation's business."

*Patricia Harfst
Upper Saddle River, N.J.*

A Home Run

I want to thank you for the wonderful article about our company [Strategies for Success, July].

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*Jim Bouton
President
Big League Cards
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Business Outlook

A Shading Toward Optimism For 1986

A strong expansion of the ranks of office workers pushed the August unemployment rate down to the lowest level in over five years,

producing a surge of optimism about the future of the economy.



Business people trying to complete planning for 1986 continue to receive mixed signals on how the economy will perform next year.

There is still no consensus among economists, although recent developments have tended to tip the scales toward a more optimistic outlook for the balance of this year and for the early phases of 1986.

The position of the optimists was reinforced by the recent sharp drop in the jobless rate, strong recovery of automobile sales and improvement in the balance of trade.

Robert Genetski, chief economist at Chicago's Harris Bank & Trust Company, says, "Employment has been growing at an annual rate of 3.5 to 4 percent in recent months, and that means that the economy is moving ahead at a 3 to 4 percent annual rate." He forecasts growth at an annual rate of 5 to 6 percent for the final quarter of this year, a level considered excessively optimistic only a few weeks ago.

On the other hand, pessimists counter that the fall in the jobless rate could be a statistical fluke. They say the auto sales boom resulted largely from costly credit incentives that simply shifted sales from 1986 to late-1985 models and from the end of a truck drivers' strike that had kept cars from dealers.

David Levy of Levy Economic Forecasts, Chappaqua, N.Y., maintains, "The economy is going to hit its breaking point soon; we are looking for it to happen any time."

Arguing that the surge in auto sales is an aberration, Levy asserts that construction of offices and housing is headed for difficult times. He also says movement of goods through the inventory pipeline "is becoming rather sluggish," a development that should not be expected "if the economy is picking up."

One indisputably bright spot in the

economy, however, is the low inflation rate. David D. Hale, chief economist at Kemper Financial Services, of Chicago, says there is little immediate prospect it will go beyond 4 percent.

Energy prices are being held down by plentiful supplies, and food prices are not expected to go up more than 2 percent over the next several months.

The inflation outlook is further brightened by the encouraging performance of the Producer Price Index, which measures cost trends in raw materials and at other points prior to the retail level.

A Close Watch On The Dollar

Alan Sinai, chief economist at Shearson Lehman Brothers in New York, says a new round of inflation could start up if the dollar's value—compared to other currencies—falls too rapidly or for a prolonged period.

"Some 2 or 3 percentage points of additional inflation is possible within a year from a sustained 10 percent drop in the dollar," Sinai says.

Six months after hitting its peak last

winter, the dollar fell an average of 12 percent in value against the currencies of the nation's six major trading partners. Against the British pound, the dollar's drop was a whopping 35 percent.

Even after its recent slide, though, the dollar's purchasing power at mid-year was the same as it was a year earlier.

The dollar is still about 40 percent

*Bigger payrolls and
lower inflation;
a cheaper dollar ahead.*

Disagreement On Indicators

M. Kathryn Eickhoff of the Office of Management and Budget says companies failing to anticipate the strength of the renewed expansion might fail to plan properly.

above its recent low point, reached in July, 1980.

Sinai says the dollar should continue its downward path into 1987 for two reasons: slower growth in the United States, and faster growth overseas. Shearson Lehman Brothers economists forecast an 8.5 percent decline in the dollar's value compared with the currencies of six major trading partners in 1986, and a 4.8 percent drop in 1987.

Do not expect a substantial drop in the dollar to reverse the trade deficit overnight. Experts say it could take 12 months or more before a cheaper dollar starts to significantly erode what this year is expected to be a record \$150 billion merchandise trade deficit.

Meanwhile, the threat is growing that Congress will pass protectionist legislation, even though the House turned down what some economists say would have been the best way to slash the trade deficit—massive cuts in federal spending.

The New York Federal Reserve Bank recently estimated that import restrictions on just three products—autos, sugar and clothing—cost consumers between \$14 billion and \$19.5 billion last year.

The trade deficit could get worse before it gets better. Importers may boost their foreign purchases in order to bring goods in under the wire before any threatened trade restrictions take effect.

A second reason why a declining dollar cannot be expected to bring about a slackening of import competition is that foreign producers are likely to absorb smaller profit margins, as the dollar falls, before they are willing to give up their share of the market to domestic companies.

The dollar, however, may never return to the low levels of the decade of the 1970s. Says Manuel Johnson, an assistant Treasury secretary for economic policy: "The dollar will eventually come in line with other currencies at a level that is not significantly different from the '50s and '60s."



PHOTO: T. MICHAEL KECK

Time-tested indicators of growth or recession are not as reliable as they once were. Kathryn Eickhoff, Office of Management and Budget associate director for economics, explains why:

"Services are such an important element in this business cycle, yet all of the good indicators are in the manufacturing sector. We have no data to tell us anything about services, except for retail trade." Though manufacturing is weak, she says, "that does not mean the economy is about to fall out of bed. Manufacturing is just an anchor slowing it down."

Between October and December the economy must grow at better than a 5 percent annual rate in order to achieve the 3 percent annual growth forecast in the administration's latest estimate.

What was the basis for that August forecast? A pickup in consumer spending, a cyclical buildup of inventories, and what Eickhoff says is a still acceptable level of consumer debt.

Eickhoff, a former vice president of Townsend-Greenspan & Company, a New York economic consulting firm, says figures showing that consumer debt is already dangerously high are distorted by the widespread use of credit cards to make purchases that are paid off monthly.

To avoid the pitfall of placing too much emphasis on manufacturing,

economists at the Pittsburgh National Bank base their forecasts on what they say are the leading indicators of future economic activity.

Last year those indicators hinted at this year's slowdown. Now they have switched direction: The money supply is rising, interest rates are falling, the dollar is weakening, and the inflation rate is dropping.

W. Lee Hoskins, the bank's chief economist, says the economy will grow at an annual rate of 4.5 percent in the last three months of the year.

He is waiting for purchasing agents to start writing more orders, noting that a year-long sell-off of excess inventories has left plenty of empty space in warehouses and stockrooms.

Shrinking inventories have cut growth 1 percent this year, the bank's economists say, and are a major reason why manufacturers' orders have been flat since last autumn.

Says Hoskins: "If Christmas sales are stronger than I think they may be, there is some potential for shortages."

He expects a "relatively strong" Christmas selling season—better than last year, but not as much of an improvement as 1984 was over '83. Another reason for his optimism? Consumer confidence, as shown by surveys, has been at near record levels for the longest stretch since the 1960s.

Answers To Your Questions

Competing For Contracts

How does a small company go about competing for government contracts, particularly defense contracts?
G.C.C., Washington, Pa.

Newcomers to government contracting might first try the General Services Administration. The GSA arranges for the purchase of billions of dollars' worth of items that civilian agencies need—computers, automobiles, office supplies and so on. It operates through 13 regional business service centers in Boston, New York, Washington, Philadelphia, Atlanta, Chicago, Kansas City, Fort Worth, Houston, Denver, San Francisco, Los Angeles and Seattle.

The agency provides specifics on what it is buying and on whether small firms will qualify as suppliers. It also

disseminates information and advice on selling to other federal agencies. Each business center has applications for getting on bidders' mailing lists, furnishes invitations for bids and specifications and provides government publications that list bidding opportunities. GSA's Washington address: 18th and F Streets, N.W., Washington, D.C. 20405.

Also, several procurement publications can be obtained by writing and enclosing payment to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. *Federal Procurement Regulations* (\$50) and *Defense Acquisition Regulations* (\$68.50) give specifics on procurement regulations.

U.S. Government Purchasing and Sales Directory (\$5.50) and *GSA Supply Catalog* (\$5.50) tell what the gov-

ernment has bought in the past; *Commerce Business Daily* (\$105 annually first class, \$80 second class) tells what the government is planning to buy in the future. *Doing Business With the Federal Government* is free from the GSA, as is *Contractor Paths to Grief, With Some Solutions*.

Beef With The IRS

My accountant and I have shown the Internal Revenue Service canceled checks, paid to the IRS, which the service claims it has never received. As a result, the IRS has placed a lien on my business and its property. How can I get help?

S.G., Houston

Call your local IRS office and ask for Problem Resolution. This is a special program administered nationally by the IRS ombudsman. A staff member is appointed to the case, and required to come up with a resolution within 30 days. It is aimed at just your situation.

The Fast Keyboard

Your article about the Dvorak keyboard [August] made me want to try it. Where can I find training in my area?

J.A., Tampa

Virginia Russell, president of the Dvorak International Federation, says there are programs in Florida, but nothing specifically in the Tampa area. She suggests you begin with the manual *The SCM Short Course for Dvorak Typing*, \$10.95 (plus \$2 for postage) from the Federation, P.O. Box 128, Brandon, Vt. 05733. You may also wish to call Russell at (802) 247-6020. She has a list of other products that may be useful to potential Dvorak users. ■

How To Ask

Have a business-related question you need answered?

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Washington Roundup

Mc Pentagon Fries Restaurateurs

Fast food franchises like this Burger King owned by the Army and operated at Fort Stewart, Ga., have competing restaurant owners steamed.



PHOTO: GRANT COMPTON

The Pentagon is becoming the new home of the Whopper—and the Big Mac, Cajun Nuggets and many other fast food products it plans to vend at almost 500 outlets on its bases worldwide. But Congress is losing its appetite for the scheme aimed at producing many millions to be used to fund on-base recreation facilities so taxpayers won't.

Sen. Mack Mattingly (R-Ga.), prodded by Hinesville, Ga., restaurateurs near the Army's Fort Stewart, convinced colleagues to halt temporarily any new deals between the Defense Department and Burger King, McDonald's, Popeye's and others.

"Fast food franchises on military installations are an abuse of the free enterprise system," said Mattingly. "I'm just trying to protect the private sector."

No small fries, the Defense Department's plans. Over the past two decades, non-brand name concessions on bases produced more than \$3 billion in sales. The Army and Air Force Exchange Service expects many more bucks from the appeal national chains

have to service people and their families.

According to AAFES, its trial-run 10 Burger Kings, one Pizza Hut and one Popeye's have earned \$6.6 million since January.

Mattingly says AAFES is operating its facilities at an unfair advantage, since the Pentagon does not pay the taxes and rental fees private operators must shell out.

AAFES is going ahead with the construction of several dozen more outlets contracted for this year and in 1986. Burger King Corporation's spokesman says, "We feel confident once the facts are weighed by the Department of Defense, the moratorium will be lifted."

The Army is also planning to open franchise lodging facilities on its bases. At least 12 posts are expected to get motels by 1987 under a scheme the Army says will give temporary lodgers "a taste of home."

Army officials foresee real gains in morale—and income—from the new lodgings. But Mattingly objects to the motel plan as yet another incursion into community free enterprise.

Recordkeeping, Round 2

Remember the uproar last winter over auto recordkeeping rules the Internal Revenue Service had proposed? The flood of complaints about the requirement to keep "contemporaneous" records for each business-related trip prompted Congress to change the law.

New rules retroactive to January 1 give employees more leeway in substantiating the business use of vehicles and employers more flexibility in reporting and withholding tax due on the fringe benefit of vehicles that can be dedicated to personal use.

Individuals still must keep records to document business trips. Receipts and written records made at the time of the trip are the best way to prove claims. Employees should use IRS Form 2106 to get credit for business use of a company-provided vehicle that an employer reports is entirely for personal use.

For example, employers may withhold income taxes on the value of the benefit annually, semi-annually or any period they choose. Employers also have the option of treating the benefit's value either as regular wages subject to standard withholding rates, or as supplemental wages subject to a 20 percent rate. However, Social Security and other payroll taxes must be withheld each pay period. Employees must be notified as to which options are used.

Though employers may choose whether to make a cash withholding, they still must make regular payments to the IRS (general depository rules apply) for the entire amount due. What is more, the employer has until April 1 of the next year to be reimbursed by the employee for Social Security or other payroll taxes paid the IRS on the employee's behalf.

So that employers have enough time to prepare W-2 forms, a new accounting rule allows them to consider the benefits paid during the last two months of the year as income received in the following tax year.

These rules also apply to other benefits where property can be used for both business and pleasure.

THE NATION'S BUSINESS

Washington Roundup

Congress casts a jaundiced eye on the Defense Department's venture into fast food franchises.

A Plan To Increase Privatization

Businesses as diverse as data processing companies and garages could end up big winners if White House Chief of Staff Donald Regan succeeds in pushing through a strategy to help cut the federal budget deficit by contracting out and increasing efficiency.

Incoming Office of Management and Budget Director James C. Miller is making management reform the centerpiece of cost-cutting initiatives aimed at improving efficiency at most civilian government agencies 20 percent by 1992.

Contracting out government services is one way state and local governments are reducing the cost of delivering essential public services. State and local government managers say that when they are forced to compete against private firms it makes them and their employees find less expensive ways of delivering public services.

The OMB in the past several weeks has submitted to Congress 19 separate pieces of legislation aimed at making it easier to contract out government services while giving government better tools to manage those contracts.

One proposal would let civilian agencies enter into contracts lasting up to five years. Such contracts are now subject to annual authorization. That can discourage many companies from bidding for government work.

Other legislation, if enacted, could make it easier for the government to litigate contract disputes, and guard against fraud and abusive practices, through such techniques as giving subpoena power to auditors in cases where contracts exceed \$100,000.

Another bill proposed by the Reagan administration would strengthen existing antibribery statutes by assessing damages of up to 10 times the amount of the bribe.

The activities that are put up for bid as a result of the productivity drive cannot be identified, since OMB plans to give agencies time to shape up before being forced to compete against the private sector.

David Museo is the Office of Management and Budget official in charge of coordinating agency efforts to improve efficiency in delivering government services.



PHOTO: T. MICHAEL REZA

David Museo, an OMB official coordinating agency efforts to deliver services more efficiently, says improving efficiency 20 percent will require innovations like rewriting the government's job classification manuals.

The current job classification system encourages larger staffs than those for equivalent work in the private sector.

Political Farming

With farm debts rising, commodity prices in the doldrums and export markets dwindling, farm income-support programs that the Reagan Administration had wanted diluted are likely to be reinstated in this year's farm bill.

Pushing the agricultural sector toward the free market may make for good economics but, the administration is learning, it certainly makes for bad politics.

Capital Update

Caribbean Connection

Fighting communism in Central America can be profitable, American firms are learning.

President Reagan's Caribbean Basin Initiative, an economic stimulus package, is aimed at reducing the risk of revolution in the region. The program has already spurred more than \$208 million in investments and produced 35,000 jobs. The primary development tool has been allowing most products made in the region to enter the U.S. market duty free. The potential is even greater, says the Commerce Department.

American manufacturers' incentives to open plants in the region include area governments' offers of tax breaks, worker training programs, industrial parks and free trade zones, along with a markedly improved business climate.

Low-cost labor, say those who have invested, is the biggest plus.

To find out how to get involved write or call:

Caribbean Basin Information Center, U.S. Department of Commerce, Room H3020, Washington, D.C. 20230, (202) 377-0703.

A Jump On Regulations

An early warning system has been set up to alert business to regulations being considered by the 17 federal departments and agencies that issue the most rules affecting business.

The *Regulatory Program* is a 600-page directory listing nearly 550 proposed regulations—the first time such rules have been catalogued. Some of the rules listed will not go into effect for years, if ever; others could take effect almost immediately.

Deputy Budget Director Joseph Wright says early disclosure of rules under consideration will reduce the number of needless regulations and thus save billions of dollars.

Regulatory Program is available from the U.S. Government Printing Office (stock number: 041-001-00293-6). Price: \$21.

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Small Business Report

By Mary-Margaret Wantuck

Banks Rush To Serve Smaller Firms

Banks are learning that small business can be as profitable as big business—sometimes more so—and they are shifting their priorities accordingly.

Shawmut Corporation Banks, of Boston, for example, has opened 37 Business Banking Centers in Massachusetts that cater to small and mid-sized firms. Lending officers versed in small business operations staff the centers.

Among the centers' services is Enterprise, an easy-access revolving line of credit renewed annually.

"No matter how long or how close a relationship an owner has had with his banker, there is still the anxiety of filling out the loan application and hoping it will be accepted," says Betsy Morris, market-support manager.

The customer fills out a check to tap his line of credit. Repaying the principal is as simple as filling out a deposit slip.

Shawmut also offers a software cash management program called Business Arrive.

For small firms without strategy planning departments, Shawmut has a service called Business Planning.

In Bridgeport, Conn., Citytrust Bank has a Center for Business Planning to help owners develop and implement business plans and projects like succession planning, organizational management, marketing and financial analysis.

For owners looking into new technology, the bank set up its Center for Microcomputer Services.

Citytrust offers a series of financial management seminars for owners of closely held businesses with \$10 million or less in sales. The bank has an import-export school that teaches company personnel interested in international trading the basics of foreign financing, letters of credit and foreign exchange.

Small business has always been the "meat and potatoes" of Florida National Bank in Jacksonville, says Joyce Indingaro, vice president for business banking, "but it was never a highly focused market." Now it is.

The bank uses what it calls a relationship manager—a single banker who

takes care of the banking needs of one business.

Like Shawmut, Florida National has developed a revolving line of credit. Florida National's, called Business Purpose Line, allocates credit based on any equity a business client has in real estate holdings and on the financial strength of his company.

The bank offers cash management products from wire transfer to payroll services and international products from import-export financing to documentation needs. "Small companies are the future of Florida," says Indingaro. "By getting in on the ground floor, we hope to grow with them."

Banks like Shawmut in Boston want to attract small business customers by offering a range of services similar to those they give large firms.



PHOTO: T. MICHAEL REZA

Faster, Simpler Loans

Small business owners are constantly concerned about how to find or borrow money for expansion, and many of their questions focus on how to cut through the paper work of applying for a loan from the Small Business Administration.

Sometime this fall—possibly this month—the SBA plans to have its Preferred Lenders program functioning nationwide.

The program lets participating lenders handle all paper work for SBA loans, and service the loans.

Faster loans and quicker loan decisions should follow.

A pilot program in the New York-New Jersey area, the Midwest and on the West Coast has made 535 loans for \$137.6 million since 1983.

The program is good for everyone, says James Sanders, SBA administrator.

"Borrowers are finding significant improvements in timely, effective and prudent service," Sanders says.

"Lenders are improving their ability to service their small business customers, and SBA has been saving time and money by decreasing the amount of paper work and involvement of agency personnel in the delivery of financial services."

Pennsylvania 65000

Pennsylvania's Small Business Action Center offers one-stop service for free information and assistance on state licenses and permits, state-related business questions, complaints and problems. It also refers small firms to appropriate agencies and organizations. Its *Pennsylvania Small Business Newsletter* keeps the small business community abreast of new programs, laws and regulations.

Developments of interest to small firms, from financing to computers, from services to sources of help.

Room To Grow

Prospective clients talk to Richard Lewis about renting space in his Corporate Executive Offices.



PHOTO: AFFILIATED PHOTOGRAPHY

Office costs for the small operation are a heavy burden, and getting heavier as rents continue to climb and landlords grow less willing to accommodate a small firm. One solution is shared office space; a complex of small operations that share a receptionist, telephone operator, secretaries, mail room clerks and computer.

Advantages include not having to pay big bucks for raw space, buying furniture, or hiring help, and not having to worry about payroll taxes and liability insurance.

At Corporate Executive Offices in

White Plains, N.Y., the first in a chain that is planned for 15 locations, 84 entrepreneurs and consultants share 12 secretaries and clerks, a receptionist, a computer software library, banking services, a check-cashing window, a limousine service and a travel arrangement system.

"There is a demand for quality office space for the small-business owner," says Richard Lewis, Corporate's president. "Our state-of-the art communications and secretarial support services allow a company or branch office to be in business overnight."

Legislating Incentives

A bill to make expansion capital easier for small businesses to find and afford is working its way through Congress under the guidance of Sen. Lowell Weicker (R-Conn.).

He is proposing a tax incentive package for small business participating debentures. Only active domestic companies privately capitalized at less than \$1 million would be eligible to issue the debentures.

Small firms could obtain low-cost capital without being burdened with oppressive debt. And owners would not have to relinquish any management control or ownership of their firms because the debenture works as a loan.

The bill includes attractive tax incentives both for borrowers who issue debentures and investors. Borrowers would be able to deduct as business expenses interest payments and the share of earnings paid out to investors as profit. Investors' interest on the debenture would be taxable as ordinary income, but their share of the company's earnings would be taxed at the preferential long-term capital gains rate.

"This legislation will help to insure that our small businesses will have access to the affordable capital necessary to expand and create new jobs," says Weicker. And, he says, the resulting economic activity "will generate revenues which will make the debenture a money-maker for the federal government."

Another good move for small business is a proposed amendment to the Senate's version of the Small Business Administration authorization bill that would raise the SBA guaranty on surety bonds to \$1.5 million from the present \$1 million, in effect since 1974.

Inflation has put many contracts above the \$1 million mark in the decade since the program began. Last year \$3.7 billion in federal, state and local construction contracts fell between \$1 million and \$1.5 million, preventing thousands of small entrepreneurs from competing.

Small Notes

□ The Department of Defense has published the *Small Business Subcontracting Directory* with names and phone numbers of DOD prime contractors and the small business liaison officer for each product or service. The directory (stock number 008-00-00411-1) is available for \$2.25 from the Superintendent of Documents, Department 36-NP, Washington, D.C. 20402.

□ The Census Bureau reports that sole

proprietorships account for 88 percent of U.S. service firms.

□ The market for business graphics will reach \$682 million by 1990, a dramatic increase over the 1984 level of \$177 million, says a study by research consultant Frost & Sullivan. The firm says small business will be responsible for much of the growth, because of the lower costs and accessibility of the personal computer.

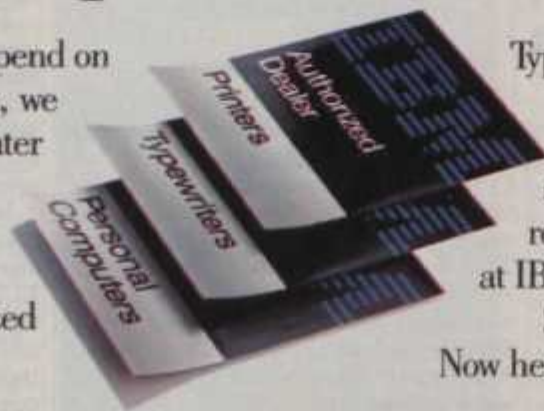
Small Business Report

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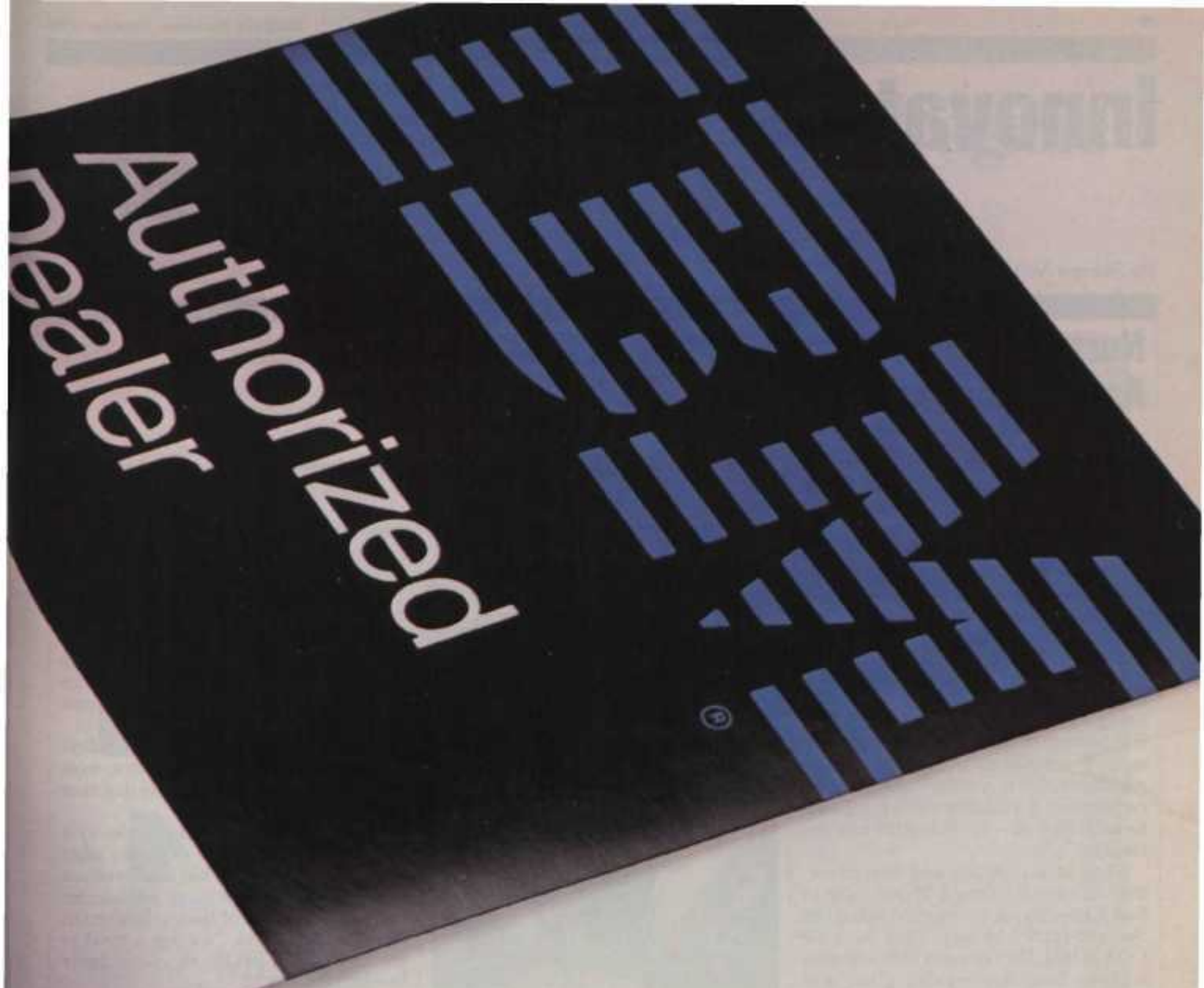
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Innovators

Meeting challenges involving family life, customer happiness, effective advertising and employee enthusiasm.

By Sharon Nelton

Nurturing Families And Businesses

Companies that provide at-home maid service save an employee's energy for family and job, reasons Michael A. Silva.

Michael A. Silva was being interviewed for a job some years ago when the interviewer presented him with a paradox. Silva was told the company would want a 14-hour day out of him if he hoped to move up the corporate hierarchy; at the same time, he was expected to maintain a good family life.

That didn't sit well with Silva. He and his wife have five children.

He is running a corporation of his own these days, and he, too, wants his executives to have a solid family life. But instead of obstructing that goal by making unreasonable demands on his managers, he is trying "to make the corporation a resource to—as opposed to an enemy of—the executive and the family."

Silva, 34, is president and chief executive officer of Bennett Enterprises in Salt Lake City. A century old when the Bennett family brought Silva in to be CEO in 1981, the company was engaged in three businesses—paint, glass, and automobile, truck and equipment leasing. It was realizing about \$20 million a year in revenues and had about \$50 million in assets.

The young CEO brought aboard a former Arthur Young colleague, Craig R. Hickman, to help direct Bennett's future, and together the pair have been using the company as a laboratory to test some of their management ideas. Out of their experience, they produced the popular business book, *Creating Excellence* (New American Library, \$17.95) last year, with *The Creating Excellence Workbook* to follow in 1986.

Silva, who now owns 20 percent of the company, has turned Bennett into a new kind of venture capital company, buying 30 to 81 percent of smaller, entrepreneurial firms and nurturing them through a period of rapid growth. Venture capital is an industry that is dominated by people who have never run companies, he says, and as such, it is outdated.

"We measure our performance in terms of how successfully we can manage a company's maximally accelerated



PHOTO: T. MICHAEL REZA

growth over five years and then take it to the public market," says Silva.

Conant Associates, an architectural design firm headquartered in Salt Lake City, was doing \$2 million in sales when Bennett Enterprises bought it nearly three years ago; this year, Silva expects it to do \$65 million. Other acquisitions bring the conglomerate's holdings to 13, including a chain of dental clinics, a furniture manufacturer and a management consulting firm.

The founders are required to stay with the firms, learning management under Bennett Enterprise's tutelage and enjoying the efficiencies and contacts that the larger firm can provide. While Bennett has grown to nearly \$80 million in yearly revenues, Silva says it will realize its biggest gains as holdings are taken public.

So what has Silva done for families? In addition to their own paid vacations,

higher-level executives get a vacation allotment for family. There is no set amount—it depends on the level of the executive and the vacation that the family takes. Silva says allotments have ranged from \$1,000 to \$3,000, and the family must take the vacation away from home.

Senior executives are also required to take a month's sabbatical every three years. "We fund that for the entire family as long as what they do is not business related," says Silva.

Bennett also sponsors Utah's first corporate day care center, where, says Silva, "at our cost, we provide day care for about 50 children."

Some benefits are tailor-made to a particular holding. For example, most of Conant Associates' 250 employees are professional architectural or interior designers. As part of their employment package, says Silva, "we pay a maid to go in twice a week to clean their homes."

The rationale behind the maid service? The increase in women in the design areas and the increase in single parent families, both men and women, answers Silva. For example, he reasons, a mother who works hard at the office should not have to work hard all over again when she goes home at night. Whatever energy she has left should be available to her family.

What goes on at home, says Silva, does affect what happens at work. "If I have a problem with my spouse or a problem with my child, I have trouble concentrating. I may cover that up on the job, but it's going to show in my productivity."

He contends that "the company that treats its employees and their families superlatively is going to have a competitive advantage over everyone else in hiring."

But it is long-run economics, he warns. "In the short run, it's very expensive. It is not to be done by a company whose CEO lives by the quarter, because it goes right off the bottom line."

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MANAGING YOUR BUSINESS

Innovators

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Making Customers Happy

Most consumers have stories to share about how on some occasions they get royal treatment while on others they are royally mistreated.

Take the couple who bought a roomful of low-cost furniture and were amazed to learn the store would deliver to suit their convenience on a Sunday morning. The truck even arrived on time. And the buyers were dumbfounded a few days later when a store representative called to make sure everything was satisfactory. Somebody cared—and it made them feel wonderful.

The same couple had a far different experience with a bank, which not only said that a perfectly good check for a credit card payment had bounced, but also that it had destroyed the check and thus there was no evidence. Bank employees threatened the credit rating of the couple, who sent in a second check that the bank then lost.

When you tell Carol Sapin Gold these kinds of stories, she knows just what you are talking about. A management consultant from Santa Monica, Calif., she is a nationally recognized authority on customer relations.

Gold, whose clients have included K mart, AT&T, Dow Chemical and General Mills, notes that a company's attitude toward customers permeates every department. And customer relations can be very subtle. One study, she says, shows that customers above all want practical things like accuracy in procedures and a clean environment in which to shop.

Product knowledge on the part of a salesperson is also essential. If customers get courtesy too, she says, "their cup runneth over!"

It is not enough to tell employees to give good customer service. A company has to be committed to it from the highest level, Gold says. Managers have to serve as role models for good customer relations, and employees—including part-timers—have to be trained in customer service.

Helping an angry customer with a

problem can be especially tough. But Gold says the following three steps usually work:

- Listen to the customer. Listen not for the words but for his or her attitude, because the attitude is what you need to relate to.

- Be empathetic. If the customer is upset, say something like, "I can appreciate your being upset over this. Let me see what I can do to help." What usually registers with the customer when you are empathetic is the feeling that "somebody really understands what I'm going through."

- Take action. Do something that actually does help the customer. If you can't do it yourself, find someone who can.

Says Gold: "We must stay on focus, and the focus is the problem, not the customer."

Rah! Rah! Rah!

Corporations need less managing and more cheerleading. That is one of the conclusions of Steven C. Brandt in a new book, *Entrepreneurship in Established Companies: Managing Toward the Year 2000* (Dow Jones-Irwin, \$19.95).

"What is it cheerleaders do?" writes Brandt, senior lecturer at the Stanford University Graduate School of Business.

"They stir up people's emotions. They get people involved. They energize. They 'lead' with no real authority to direct; people follow along voluntarily."

Ways to cheerlead? Try "managing by walking around" to reduce the problem of distance between key people and customers; concentrate on "what needs to be done" rather than "what we know how to do"; do some calisthenics and sing some songs together. That can build esprit de corps.

The Road To Greatness

An advertising agency "can only do great advertising for companies that crave it," according to John E. O'Toole, chairman of Foote, Cone & Belding Communications, Inc.

Great advertising occurs only when the client and the agency are in total accord, he says. And the "craving" for it must come from top management of the client company—from a chief executive who believes that advertising is critical to the success of the business.

Younger, less experienced managers, O'Toole suggests, sometimes have neither the judgment nor the support to approve a daring idea.

"Great advertising is risky advertising," says O'Toole. And with advertising, as with anything else, only the folks at the top can create an environment that encourages innovation and risk taking.

Cheerleading offers enthusiasm and spirit, says Stanford University's Steven C. Brandt, and companies need it.



PHOTO: MICHAEL MANNHEIM—FOLD

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Date of Birth: 12/24/79



Sarah Elizabeth Avon
From: Joliet, Mo.
Date Missing: 7/21/81
Hair: Brown. Eyes: Brown
Date of Birth: 1/6/75



Scott Leonard Smith
From: Brattleboro, Vt.
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Date of Birth: 7/18/67



Mitchell Owens
From: Menlo Park, Calif.
Date Missing: 2/3/83
Hair: Black. Eyes: Brown
Date of Birth: 11/21/78



Juanita (Lee) Estevez
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Date Missing: 11/27/84
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IF YOU SEE ANY OF THESE CHILDREN

Bottom Line 101

By Mary-Margaret Wantuck

In 1974, Scott Goldsmith traded his car in on a dream.

Then 25, he had observed the growing demand for vitamins, natural foods, personal-care items and other products associated with health, fitness and a youthful appearance.

Convinced he had identified an opportunity to start his own business, Goldsmith quit his job with a wholesaler of office furniture, sold his car for \$3,500 and launched Vita Plus Industries in his Las Vegas apartment. The company now has a manufacturing plant with 100 employees and annual sales of \$6 million. Goldsmith wants the business to keep growing, but he wants well-planned, orderly growth. And he wants to acquire the ability to identify and avoid pitfalls.

Shelley Ward had been a schoolteacher and summer employee of Spillman Company, in Columbus, Ohio, when she was invited to become a full-time employee of the firm, which fabricates steel frames and moldings. Now purchasing agent and customer service representative, she wants to achieve as much growth as possible in her new career.

Thomas Venable, founder and president of Spectrum Control, an Erie, Pa., firm that makes filters to prevent radio-frequency interference, was concerned when his company's longtime, solid management appeared to be generating "too many errors."

Roger Dodson, president and part owner of Long Pride Broadcasting, Wichita, Kans., recognized that the owners and managers of smaller businesses tended to be long on energy and creative ability, but short on formal training in management. He particularly wanted the managers of his company to understand business planning.

While each of those managers had different needs, they sought the answers to their problems in the same manner—in education and training pro-

Colleges and universities offer specialized courses for business people who want retraining. Harvard University offers an owner-president program to those who have started or

inherited small or midsized businesses. Attendees here are (from left) Rob Thibaut, Francine Tremblay and Charlie Drewes.



PHOTO: T. MICHAEL KEZA

Business people are going back to school, but not always on campuses. Their goal: better management, better planning, better working lives.

grams outside their respective businesses.

Scott Goldsmith enrolled in the owner-president program that Harvard University offers to individuals who have started or inherited businesses grossing between \$3 million and \$100 million a year, and who have at least 10 years of business experience. Shelley Ward participated in a Smith College program designed to help women who move from subordinate to supervisory roles.

Thomas Venable took his executives to a training program that promises to "hold the company's hand while it implements changes." Roger Dodson and five of his executives became students at the Center for Entrepreneurship and Small Business Management at Wichita State University's College of Business Administration.

In seeking such outside help, those four business people joined one of the fastest-growing activities in the business world today—the mass movement of managers back to the classroom to improve their business skills. Those classrooms are in major educational institutions, in community colleges and high schools, in hotel meeting rooms where seminars are held and, to a great extent, in the facilities of companies themselves.

Oscar G. Mink, professor of curriculum and instruction at the University of Texas in Austin, estimates that nearly 8 million working adults are participating in education programs companies conduct in their own classrooms. He says these employees are either seeking training to improve job performance, education to prepare for future jobs or development for personal growth.

Samuel A. Pond, publisher of *Bricker's International Directory*, a guide to university executive education programs, surveyed management schools in 1984. There were, he says, 5,543 participants in programs at these university-level management schools conducted for companies at

A group of students from the owner-president program at Harvard (from left): Mary Tjosvold, Arturo Peralta-

Ranajos, Ken Nill and Scott Goldsmith.



PHOTO: T. MICHAEL KEZA

their facilities. Worldwide, there has been a 63 percent increase in such programs in the last decade.

"The programs fall into two categories," says Pond. "One is general management programs that deal with the various functions of a business, as well as overall strategies and policies. The second is functional—marketing or finance or operations."

Lawrence Winters, director of sales for Dun & Bradstreet Business Education Services, says his company's one-day seminars have shown significant growth.

"In 1985 we're planning on having 3,200 programs. That's a fairly sharp growth over last year, when we had about 2,200."

Estimates of what companies are spending on formal education and training programs for employees range from \$50 billion to \$80 billion a year, with a

substantial portion of that going into development of managerial skills.

Another measure is found in an analysis that William G. Thomas, a management and organizational development consultant with the Consul Group, made of companies cited in the best-selling books, *In Search of Excellence* and *The 100 Best Companies To Work For in America*. He found that 97 percent of the firms have in-house management development programs, 96 percent pay for courses employees take in college and university management programs, and 43 percent give time off for study.

Why this back-to-school trend in business? To a great extent, it reflects the complex forces affecting today's business world and the individuals striving for success in it.

Anthony Carnevale, vice president and chief economist of the American

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The goal of Smith College's women-only management program is to educate women to move from a

divisional to an organizational perspective.

Society for Training and Development, says the very nature of management is changing, and new skills are needed.

"In the past," he says, "companies were divided into compartments—design, engineering, manufacturing, materials handling, maintenance and others—with each run by a separate manager. But the lines among those functions are becoming less distinct, primarily because of new technologies, and the result is consolidation that can be handled by one manager. Today's manager is an integrator."

Andrew McCulloch, associate director of the executive education program at Columbia University, agrees in almost the same words:

"Today's managers must be integrators. They can't make decisions based on a specific piece of data or in a certain area. They must bring together a variety of viewpoints to get the best possible decision."

In addition to a base curriculum, the program recognized major trends in the business world with the recent addition of two new offerings, "Managing an Enterprise" and "New Frontiers of Management."

The former ranges from competitive



PHOTO: T. MICHAEL KEZA

strategies to reconciling innovation with productivity. The "New Frontiers" program deals with such issues as relations with government, the media and citizens' groups.

One graduate, McCulloch recalls, says the program taught him to analyze "the things I simply read and listened to before."

Even the highly touted master of business administration degree is no shield from the need for additional education during the course of a career, says Ray Watson, associate dean of the executive education program at Duke University's Fuqua School of Business. "The M.B.A. or its equivalent is only good for eight years out in the business

The Corporate Campus

Many companies—about 400—have established separate educational facilities of their own.

Companies like Xerox, says Kenneth Hansen, manager of corporate education and training, need managers who are well-attuned to a specific corporate culture, can contribute to the bottom line and have the skills needed to handle global challenges and the increasing complexity of a multifaceted organization. In pursuit of that goal, Xerox has built an International Center for Training and Management Development on a 2,265-acre site near Leesburg, Va., 30 miles from Washington.

International Business Machines Corporation has a management development center at corporate headquarters in Armonk, N.Y., that is the educational hub for employees throughout the world. Instruction covers the compa-

ny's history and goals, as well as more direct development programs on effective management and communication. As managers move up the corporate ladder, they move into courses on broad economic and social issues likely to affect the company.

A two-week seminar is held once a year for IBM executives from company installations around the world. The curriculum deals with world trends, with particular emphasis on significant current events.

An important sign of the growing significance of these corporate development programs is the extent to which more and more of the courses they offer carry college credits. Sylvia Galloway, director of accreditation for the American Council on Education, says, "In the last three years, we've seen a big increase in the number, types and

sizes of businesses seeking accreditation" for in-house education programs.

"Businesses are blazing some trails in the way they deliver courses," she says, noting the use of "computer-assisted instruction and other techniques that have not yet invaded some college campuses."

Academic experts agree that education in a business setting can sometimes be more effective than that provided in a traditional school environment. Oscar G. Mink, professor of curriculum and instruction at the University of Texas in Austin, says, "Research on learning and adults is very supportive of the notion that adults learn best in the context of a job to do." His assistant, Nancy M. Dixon, adds, "I think we see some of the best learning going on in corporations that we see anywhere in the United States."

Ray Watson, dean of Duke University's executive education program, says continued education is necessary because the M.B.A. degree

or its equivalent is "only good for eight years out in the business world."

world," he says. "After that, it self-destructs because of the continuous and rapid changes occurring in the abilities and skills that business people need to compete successfully."

Kenneth Andrews, a professor in the Harvard business school and author of *The Effectiveness of University Management Development Programs*, attributes the back-to-the-classroom movement among business people to an increasing realization that, while many people are born managers, others can be made into managers.

Andrews terms no longer valid the proposition that "a man may learn what he will need to know from what he is currently doing." That has become a "hopeless" approach, Andrews writes, because of "rapid advances in technology, the internationalization of markets and competition and the progress of research in information processing, as well as in human behavior in organizations."

Many entrepreneurs, however, have less complex motivations in seeking additional education to help make them better managers. George Wiltsee, one of the people who run the Harvard owner-manager program, says of its students:

"These are people who have been building their businesses for 10 to 20 years, and this is probably the first time they've gotten away to step back and think about their own strengths and weaknesses. A lot of them are very weak on finance, accounting and control."

"People are so busy making their products and selling their services that they're not thinking about where the money is going to come from to run the business. It's not something they've been trained to think about."

In the women-only program at Smith, Director Susan Lowance says the goal is to "educate these women to move from a divisional to organizational perspective." The program deals, she explains, with "what happens when a woman stops doing the work for someone else and begins managing the work of other people, using a budget and working within a time frame to achieve an organizational goal."

The program is divided into three segments. The first is a three-week summer phase of core courses in organizational behavior, finance, marketing and information systems, complemented by training in communications skills. Students then return to their companies



PHOTO: CHARLES SUMPTON

for a year, during which they formulate, implement and evaluate projects that demonstrate ability to integrate functional skills and to think strategically. A second, three-week summer session focuses on long-range planning and analysis based on theory and skills learned in both the first summer session and in the various projects.

Teacher-turned-executive Shelley Ward says of her participation in the program: "Coming to Smith has given me confidence and knowledge of where my faults are. Businesswise, I'm much more aware."

At Wichita State University, Director Fran Jabara of the Center for Entrepreneurship says his program for small

What Happens After School Is Out?

Executive training can last as long as several months or be as short as a day. When the trainee comes back to work, something is supposed to happen. Does it?

Lawrence Winters, director of sales for Dun & Bradstreet Business Education Services, says it can, but much depends on the company.

Dun & Bradstreet's seminars are one-day affairs that, Winters says, "heighten awareness."

"It's not the cure-all, but it does start creating some behavioral changes. The first thing for behavioral changes is awareness—if you never reach the level of awareness, you'll never change your behavior."

But more than awareness is needed, says Winters. Much depends on what the home company is like.

He says: "If the job environment that

they go back to is a nurturing environment that allows someone to change their behavior and nurture that change, the changes will happen."

An example of positive change, Winters says, is the senior executive who has been conditioned to believe that pay levels are the principal motivator for employees. Young people now, however, are often not motivated that way.

"Now this senior-level manager is seeing his typical motivation is not working," says Winter. "This manager is having unbelievable cultural and on-the-job conflict because he doesn't understand how to motivate workers. He goes to a program, and his awareness is heightened. Even if he uses just one skill that reduces turnover 10 percent—that 10 percent can save a company \$50,000 just in interviewing, selecting, hiring and keeping new employees."

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business people is unique. The course conducted this past summer attracted 138 business people, who attended three hours a night, three nights a week for three weeks.

Jabara says it addresses such questions as translating an idea into a marketable product or service. Experienced managers like Frank Carney, a founder of the Pizza Hut chain, and Larry Jones, president of Coleman Company, add a dramatic element to the classes with frank discussions of the drawbacks as well as the rewards of running a business.

Broadcast executive Roger Dodson says he brought his management people to the course to gain a better understanding of the business planning process. As a result of the course, he says, "we ended up developing a whole new procedure for planning for the company. I wish we had gone through the program many years ago. We not only had a good time, we learned a heck of a lot."

Other manager-education programs include a Stanford University course for smaller to medium-sized firms. It is open to the heads of companies with 500 to 1,000 employees and to managers who report to such individuals. The two-week course is designed to give participants enough background in policy, strategy, finance, planning and personnel to enable them to analyze the structures of their own organizations and their roles within those structures.

Executive Director George Parker warns, however, that the program has its limitations.

"There is a tremendous appetite on the part of smaller companies for universities to provide them with cookbook approaches and formula solutions to their problems, but that is not Stanford's way," he says. "I am candid with each applicant, explaining that he should start with the premise that our faculty knows absolutely nothing about his specific business, but that we do know quite a bit about certain disciplines and the principles involved. It's

up to each business owner to take those principles and apply them to his individual company."

For companies like Thomas Venable's Spectrum Control, which are seeking instruction geared to their individual problems, Philip Crosby Associates in Miami is one destination. PCA is one of many firms that have emerged in response to the demand for management training in nonacademic settings. Founded by Philip Crosby, a former vice president of ITT Corporation, the firm works closely with executives of client companies in developing strategies to overcome problems.

Once a strategy is developed, the client company managers who will be overseeing its implementation attend PCA's "Quality College" to make sure they understand what they are expected to do back at their company.

"We will hold the company's hand while it implements changes, assisting them if necessary and monitoring them to make sure they are on the right



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YOUR FEET ARE

Roger Dodson, president and part owner of Long Pride Broadcasting, Wichita, Kans., and five of his executives became students at the

Center for Entrepreneurship and Small Business Management at Wichita State University's College of Business Administration.



PHOTO: BILL YOUNG

track," says Larry McFadden, PCA president.

Venable says he sought PCA's help when problems began to surface at his \$22-million-a-year firm: "We had always been a solid and profitable company, but we were finding there were too many errors cropping up in our production process, in accounting, in inven-

tory—all due to our management systems. We wanted to eliminate this and have our managers managing quality in every work activity."

The full effect of the PCA training will not be fully apparent until early next year, when all of Spectrum's employees will have been trained in "doing it right the first time," Venable says.

But he is already noting fewer mistakes in billing and shipping, as well as "a dramatic, positive change in our return orders."

Linking management education programs to specific goals is not by any means limited to smaller companies. Kenneth Hansen, manager of corporate education and training at Xerox, says, "If you look at the needs of corporations today, you'll see that their management training must be locked into corporate objectives."

That is also true for smaller companies. Ken Nill, owner of Lasertron, Inc., Burlington, Mass., says his fiber optics company is growing so fast—it has sales of more than \$20 million a year and 300 employees—that he sought help in the Harvard owner-manager program. He explains: "I have never had any formal management training; I've learned by doing. But our company is taking off, and there's a need for strategic planning. I have to learn new approaches and validate the ones that I've implemented. This program gives me



NOT \. YOU'LL BE AMAZED WHAT IT DOES TO THE REST OF YOU. LEADING THE WAY TWA.

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The Executive Education Program at Columbia University includes lectures by such experts as former ambassador William Sullivan (left)

and strategy sessions in which students deal with business problems as a team.



PHOTO: WAYNE SORCE



exposure to different viewpoints and how to react to people."

The importance of continuing education for business people is recognized by many organizations and associations, as well as by companies and schools. The Institutes for Organization Management, conducted by the U.S. Chamber of Commerce, provide continuing education for executives of state and local chambers of commerce and of trade associations. It is the nation's oldest program for business people seeking to improve career skills while working full-time.

The institutes, held annually on seven university campuses in various parts of the country, are conducted for five days at each location. Students usually attend one week per year for six consecutive years before receiving a graduate certificate. They take required courses, plus nine hours of electives. The required courses include staff development and administration, ethics for organizations and their executives, strategic planning, use of computers for nonprofit organizations and interpersonal communication skills. Electives include media-interview techniques, principles of organizing and delegating, effective listening and ways to thrive as a nonprofit organization executive.

Alan Wheeler, director of the institutes, says, "It's a rigid program, but people like it. Ten years ago, we had about 1,700 enrollees and a budget of \$500,000. This year, we have an enrollment of 2,300 and a budget of \$1.2 million."

Those who graduate from the six-year institute program have the option of attending postgraduate management seminars. The institutes also sponsor the Academy of Organization Manage-

ment, which focuses on social, political and economic issues.

Wheeler says the institutes' programs have proven themselves very effective: "We know for a fact that people in our programs stay in their jobs longer and are promoted more often."

The American Bankers Association is another organization with a major education operation highly regarded in its field. Its relatively new professional development program will have four tiers when fully implemented.

They will range from teaching banking fundamentals to new employees at the first level to a fourth level at which senior managers would meet to share information.

The existing system represents a complete reorganization of what had been an unfocused operation lacking consistency and harmony, according to Ralph Smeda, ABA's executive director for policy and development. After taking a hard look at it, he says, "We concluded that an individual should go through a process consisting of a series of steps linked to one another, so development is progressive from one level to another."

International trade and its many complexities represent another specialized area in which businesses frequently need training assistance. An estimated 4 million American civilians worked abroad last year, with some of them on long-term assignments overseas. Companies sending them to foreign posts want to be sure they are familiar with the culture and traditions of their host countries, and are equipped to negotiate and conduct business according to established patterns in those nations.

One place companies send employees bound for foreign assignments is the American Graduate School of Management in Glendale, Ariz., which offers a

wide variety of services geared to immediate company needs. Atlantic Richfield Company, for example, sent two executives to the school for an intensive, two-day seminar on how to negotiate with the Japanese.

Whatever form the continuing education takes—a summer on a college campus or a two-day seminar in a meeting room of the local hotel—there are clearly defined rewards, the experts say.

Harvard's Kenneth Andrews reports that, on the basis of his research, the rewards business people can expect from such education include:

- A broadened perspective of the business world and an increased confidence in their own abilities.
- A sense of assurance that their own performance will continue to improve.
- Awareness of business areas beyond their own specialties.
- Deeper appreciation of the interrelationship of business and social concerns.
- Ability to look at old problems in new ways.
- Realization there can be many different approaches to the same problem.

And companies can also expect rewards for providing education and training opportunities for employees.

In fact, what Xerox Chairman David Kearns says about the extensive programs of his own giant corporation can be said by the heads of firms and organizations of all types and sizes:

"Our investment in training will help managers deal more effectively with the complex issues of the 1980s and beyond, and will pay long-term dividends in productivity and profitability." ■

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Federal Prying From The Sky

By Tony Mauro

Dow Chemical Company has been manufacturing chemicals at its sprawling Midland, Mich., facility since the 1890s. But Dow is not about to let the rest of the world know everything that goes on inside its gates.

It has a \$3.2 million security system, complete with 8-foot high fences, a 25-member security force and motion detectors at strategic locations—all aimed at making sure competitors don't learn Dow trade secrets.

So the company was understandably angry when aerial reconnaissance commissioned by the Environmental Protection Agency in 1978 resulted in more than 75 high-resolution photos. Dow sued, charging that the plane, which made six passes over the 2,000-acre site, violated the company's privacy unconstitutionally. Now the U.S. Supreme Court will decide whether that is so.

The dispute—one of the business cases on the Supreme Court's agenda as it resumes work this month after a summer recess—has "far-reaching consequences for all manufacturing industries regulated by EPA," says Robin Conrad, of the National Chamber Litigation Center. The center represents the U.S. Chamber of Commerce, which joined forces with Mountain States Legal Foundation, an advocacy group, to file a brief in support of Dow.

Jane Gootee, lawyer for Dow, says the case "cracks open the door to legalizing industrial espionage."

The environmental group Greenpeace thinks the case is so important that it has offered to use its plane to do EPA's surveillance work, if the environmental agency loses the right to do its own. "We don't think Dow should have any right to its private airspace," says Greenpeace's Russ Wild.

For economy and for worker safety reasons, many chemicals manufacturing facilities are installed outdoors. And yet, as Mountain States Legal Foundation's K. Preston Oade puts it, photographing such facilities from above can provide a "blueprint that shows how these chemicals are made"—valuable indeed in the hands of a competitor.

Tony Mauro is the Supreme Court reporter for Gannett News Service.

The Supreme Court will decide if aerial photos violated a company's rights. At issue: industrial spying.

Business issues on the Supreme Court's calendar include one that could "open the door to legalizing industrial espionage" and another

that will define exactly what the law regulating development on wetlands covers.

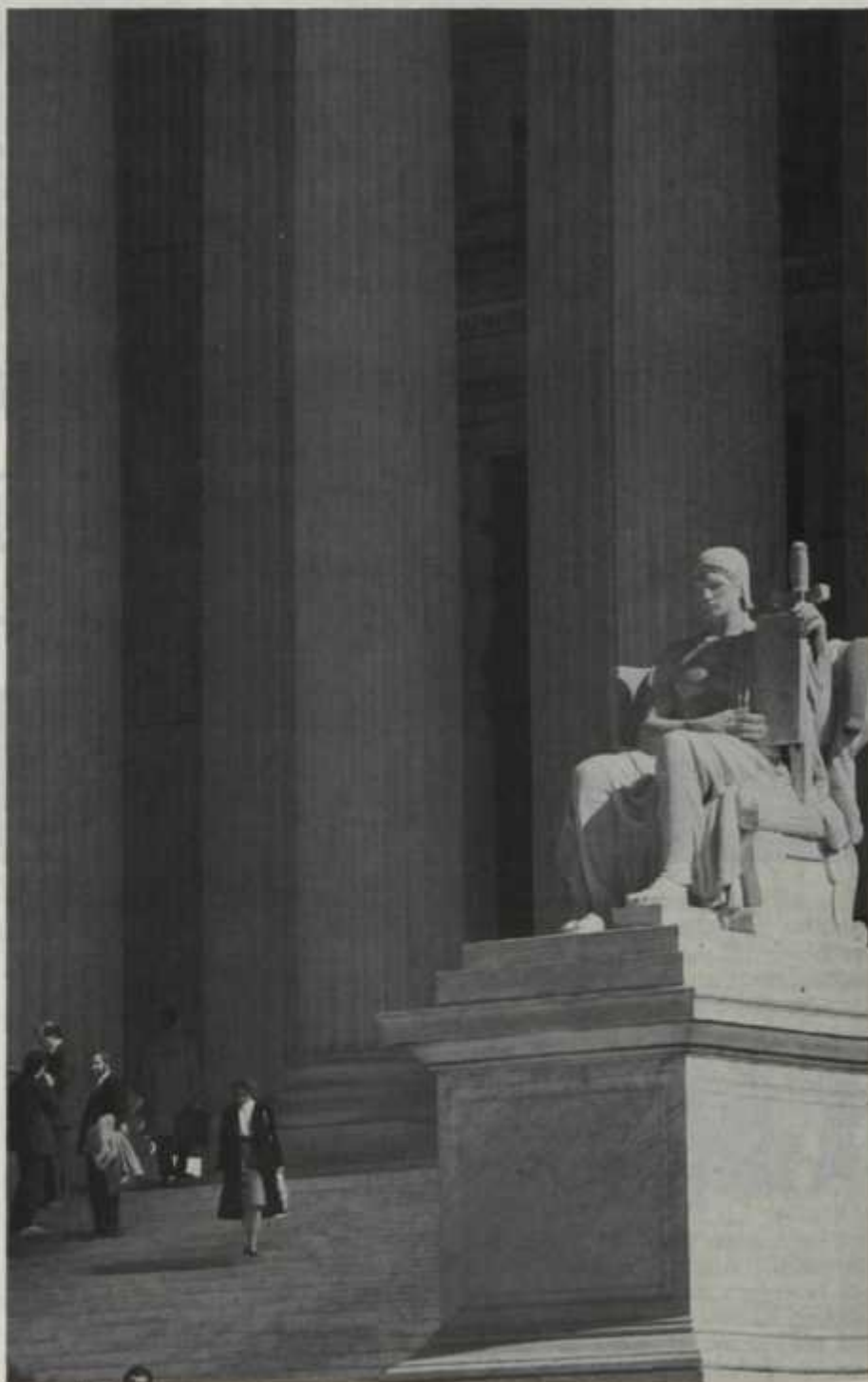
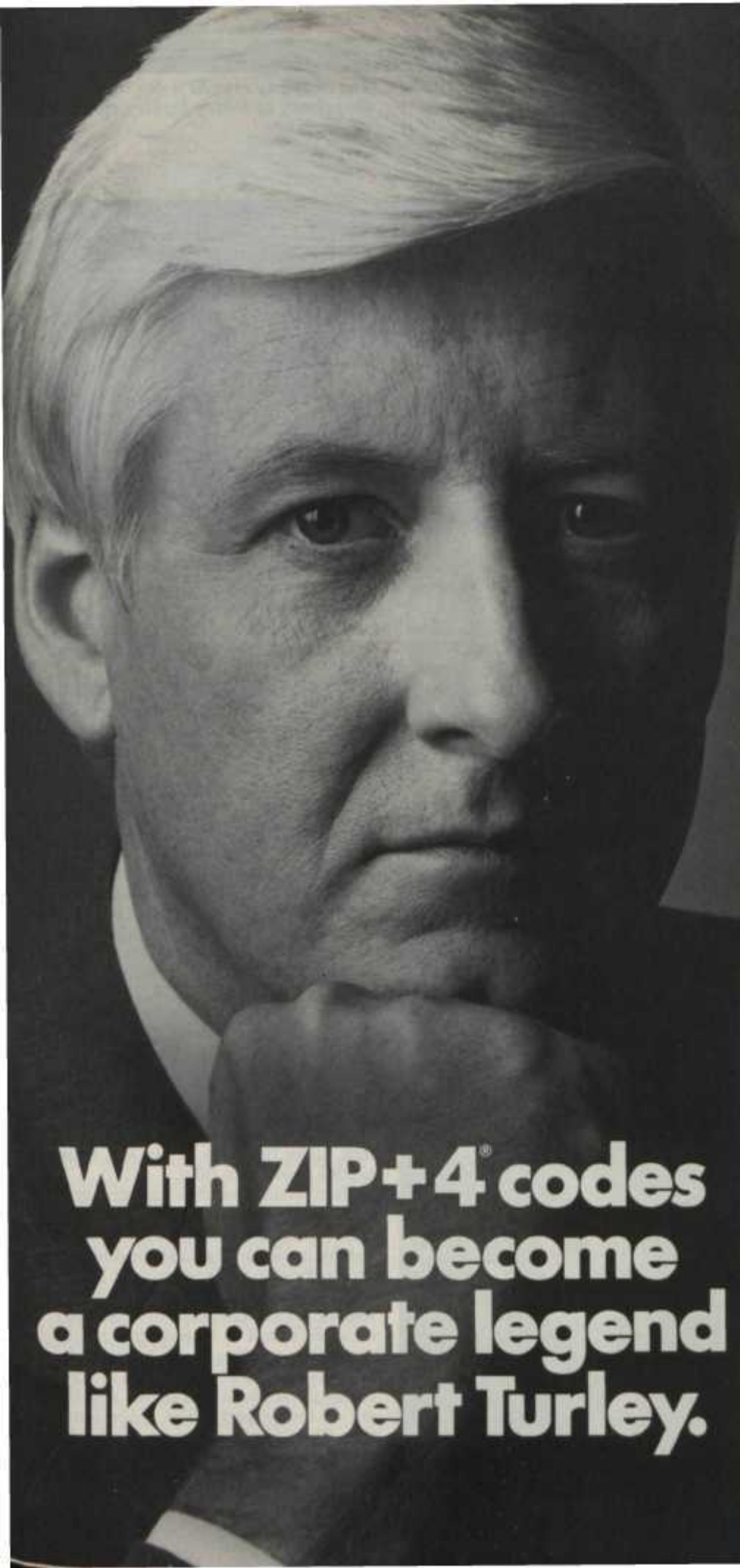


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THE NATION'S BUSINESS

Federal Prying From The Sky

The pictures EPA took were very detailed, showing components as small as a half inch in diameter. "The unaided human eye and mind cannot perceive or capture for later study the complex web of pipes, vessels and equipment of one plant, much less many plants on 2,000 acres," says Gootee. "The aerial photographs at issue did."

EPA's reconnaissance had followed an announced visit to the plant in September, 1977, part of the agency's investigation of emissions from Dow's two powerhouses. EPA had requested a second visit, this time with a camera. Dow refused to allow the visit, and the possibility of EPA obtaining a warrant was discussed.

Instead, the aerial reconnaissance was ordered—a fairly routine procedure, according to industry sources. The Dow plant, argues EPA, is "continuously exposed to the open sky," so the company "could not expect privacy in these areas comparable to that in its offices."

As soon as it learned of the reconnaissance photos, Dow went to court. A federal district judge agreed with the company that the aerial reconnaissance violated Dow's expectation of privacy and was an unreasonable search under the Fourth Amendment. The judge also said the Clean Air Act gives EPA no authority to make such flights.

But in November, 1984, the Sixth Circuit U.S. Court of Appeals reversed that decision, siding with EPA. Since the plant was open and observable by commercial aircraft from a nearby airport, the appeals court said, "it is difficult to see how a reasonable person would have privacy expectations" in this instance.

Dow and other business groups think there is a substantial right of privacy that they hope the Supreme Court will recognize.

The High Court has determined in the past that open agricultural fields, for example, are subject to police aerial searches, but "there is a big difference between rural, remote areas and a very dense, private manufacturing area," says the National Chamber Litigation Center's Conrad.

Furthermore, Conrad asserts that the type of surveillance done by EPA would be illegal if done by a private competitor, under state laws protecting against trade espionage.

With the ready access of the federal Freedom of Information Act, she adds, the EPA pictures of Dow's plant could have been obtained easily by a Dow

Dow Chemical Company has objected to the Environmental Protection Agency's aerial photography of its sprawling Midland, Mich., facility.

The company says EPA has invaded its privacy by taking highly detailed photographs.



PHOTO: DOW CHEMICAL CO.

competitor. "Why allow the government to do what the private sector can't do?" she asks.

EPA, for its part, has told the Court "there was nothing extraordinary" about the pictures taken of Dow, and no violation of the Constitution. And it politely turned down Greenpeace's offer of a plane.

"We are confident that the Supreme Court will affirm the circuit court's de-

George Short has been prevented from developing his Macomb County, Mich., land by an interpretation of the Clean Water Act.



PHOTO: JANEBO CLARK

cision," Associate General Counsel Colburn Cherney wrote to the group. "Accordingly, we believe that the agency will have ample authority to conduct aerial surveillance of outdoor industrial facilities."

Another major case on the High Court's agenda pits business against another federal agency, the Army Corps of Engineers. At stake is just how much regulatory power the corps will have over development on millions of acres of land nationwide under the Clean Water Act.

As often happens with major Supreme Court cases, the dispute started out small. For 30 years, businessman George Short had been piecing together property in Harrison Township in Macomb County, Mich., with the idea of developing homes. When he finally had 80 acres assembled in 1976, he incorporated as Riverside Bayview Homes, Inc., and began to have the property prepared for development—only to have the corps move in and stop the work.

The corps viewed a portion of the property as a wetland and asserted that, under the Clean Water Act, Short needed a permit to fill it.

Short countered that the property, more than a mile from Lake St. Clair and substantially separated from a nearby creek, merely had poor drainage and was not a wetland covered by the act. The land was not "hydrologically related" to any navigable or other body of water meant to be protected by the Army Corps of Engineers, he claimed.

A federal district judge ruled in favor of the government and halted any filling of the property. The judge found that Short's property was filled with cattails, marsh grasses and wetland plants and therefore was a wetland subject to corps jurisdiction.

Short appealed. The decision was a long time coming, but he won—in March, 1984. The Sixth Circuit U.S. Court of Appeals found that the Riverside property was not a wetland. The Army Corps of Engineers' jurisdiction extends only to areas in which wetland vegetation is caused by frequent flooding from adjacent navigable waters, the court ruled, and in this case the cause was not that, but poor drainage.

Now it was the government's turn to appeal, and the Supreme Court has agreed to settle the dispute once and for all sometime this fall.

For Short, 72, and reluctant to talk about the case, "the whole thing has been a disaster," says lawyer Edgar Washburn. "This property is his sole asset. The case has milked him."

For the nation, resolution of the dis-

pute could affect development in areas ranging from the Great Plains to San Francisco Bay. The American Petroleum Institute, which has filed a brief in the case, warns that if the government wins, "low-lying backyards may now be subject to the full panoply of federal power."

The case will determine whether development on "hydrologically isolated" land that has some wetland characteristics will be regulated or not.

In that category, the National Wildlife Federation places more than 3 million acres of "prairie pothole" wetlands in the Northern Great Plains, areas important in duck breeding. Washburn says that "most of the prime developable land in the San Francisco Bay area and the rest of California falls in this category because of poor drainage."

Business groups, like the U.S. Chamber of Commerce, which also filed a brief in the case, insist that the Clean Water Act was not meant to be a wetlands preservation measure in the first place. The government and environmental groups say Congress did mean to protect all water quality, including wetlands, and that without Army Corps of Engineers jurisdiction, ecologically crucial lands will be destroyed.

So far, the High Court's docket for the fall includes a surprisingly light agenda of business cases. That may change swiftly as the Court begins to add new disputes to its calendar. But even if it does not, the Court in the next year will make rulings key to Dow Chemical and to George Short—and through them, of major importance to the nation. **NO**

Labor Loses A Major Round

Labor unions' power to mount and sustain long strikes may never be the same. A U.S. Supreme Court decision on the subject has turned out to be one of the biggest legal victories for business in the labor relations field in years and the leading business-related decision during the Court's term that ended in July.

The Court held that unions may not prevent members from resigning during a strike. In the last decade, an increasing number of unions, including those of auto workers, teamsters and machinists, have enacted bylaws prohibiting resignations during a strike or while one is pending. Union members who resign and return to work during a strike generally are fined an amount equivalent to the pay they earn until the strike ends.

Unions defended the bylaws as a key underpinning of their federally protected right to strike. But the Reagan administration-dominated National Labor Relations Board ruled against such provisions as an unfair labor practice coercing employees.

The Supreme Court agreed with the board that no-resignation clauses violate the principle of "voluntary unionism" and said they are illegal.

Stephen Bokart, director of the National Chamber Litigation Center, says

the decision "strikes at the heart of a union's power, the power to strike." It will be "primarily significant in a long strike where the pinch is on and management is making a reasonable offer while the union is taking a hard line. Workers can now say the heck with it. It will make it easier for a company to break a long strike."

Raymond LaJeunesse, Jr., of the National Right to Work Legal Defense Foundation says the decision will affect dozens of cases now pending before the labor board and the courts. "A labor union which has the support of its membership will be successful. Only when they don't have the support of their members do they use this type of mechanism."

The labor decision was the major one in a mixed year for business. "The Court showed as it usually does that it is no rubber stamp for business," says Bokart.

Other key cases decided during the term:

- **Sabbath observance:** Business sought to overturn a Connecticut law that forced employers to accommodate the Sabbath celebration wishes of religious adherents. In one of its major church-state rulings of the year, the Court agreed that the law was impermissible because it elevated religion

above other personal reasons workers might cite for seeking special days off.

- **Bankruptcy:** Following a line of earlier decisions, the Supreme Court said business could use the bankruptcy laws to avoid compliance with environmental cleanup orders. The justices said such orders were like other obligations that could be discharged through bankruptcy. Environmentalists feared businesses would respond to the ruling with a wave of bankruptcy petitions.

- **Age discrimination:** Businesses lost an important age discrimination case when the Court ruled that Western Air Lines improperly forced flight engineers to retire at age 60. The Court said employers need to show in individual cases why such retirement is necessary, rather than making a blanket rule citing safety. But in another age case, the Court favored employers by narrowing the circumstances in which aggrieved workers could collect double damages for age discrimination.

- **Water pollution:** The Court endorsed the Environmental Protection Agency's procedure for granting individual variances from industrywide water treatment standards under the Clean Water Act. The procedure, supported by business, takes into account special factors about a plant that justify deviations from the standards.

Innovation On The Line

By Mary-Margaret Wantuck

Joseph Lahoud, president of Greenbriar Systems, a Fairfax, Va., firm that develops automated computer systems for specialized applications, says his company would have foundered without the Small Business Innovation Research program.

"I seriously don't think we'd be in existence today if it were not for SBIR and the five grants we've received totaling \$950,000," he says.

The Small Business Innovation Development Act of 1982 requires federal agencies with research and development budgets of \$100 million or more (there are now 12) to award up to 1.25 percent of the budget to smaller science and technology companies through SBIR grants.

More than \$1 billion in SBIR funding will have been provided through 1987 (the law expires in 1988). Yet this \$1 billion amounts to less than 5 percent of available federal research money.

SBIR has stabilized the percentage of federal research contracts awarded to small business, which had been dropping, at the 1982 level. Increasing research funding is a major goal of planners for next year's White House Conference on Small Business.

"There is no doubt that the government's role is crucial in funding initial innovation research," says Lahoud, who has been elected a delegate to the national conference. "The private sector is just not willing to put its money into high-risk projects at the beginning. Venture capitalists usually step in once newly developed technologies are ready for commercialization."

Based on past experience, the SBIR program has a chance to lure a sizable amount of follow-up private capital. SBIR was tested in a pilot program by the National Science Foundation in 1977. The NSF has invested \$20 million, which has so far been leveraged eight times over with private funding. If the larger agency SBIR programs match that performance, the \$1 billion government investment could lead to an additional \$8 billion in private-sector money.

But improvements can be made, say people familiar with the program.

SBIR needs greater flexibility, maintains Andre Pettigrew, vice president of TEM & Associates, a Berkeley,

Calif., research and planning firm. Says Pettigrew, who served on the White House Conference's innovation task force: "One of our long-term goals is to get into hard science research and innovation and develop ourselves into a manufacturing-based company. We'll probably turn to SBIR when we do. A limitation we see, however, is that a small business must make a proposal based on a research project that has already been identified by an agency. If my company wanted to initiate a research study that did not conform with an agency project, chances are very poor that it would make it under SBIR. This stifles creativity."

Small businesses seeking federal research grants should be allowed more room for original projects, says Heinz Poppendiek, a member of the

Delegates to the White House Conference suggest ways to increase research funding.

White House Conference's innovation task force.

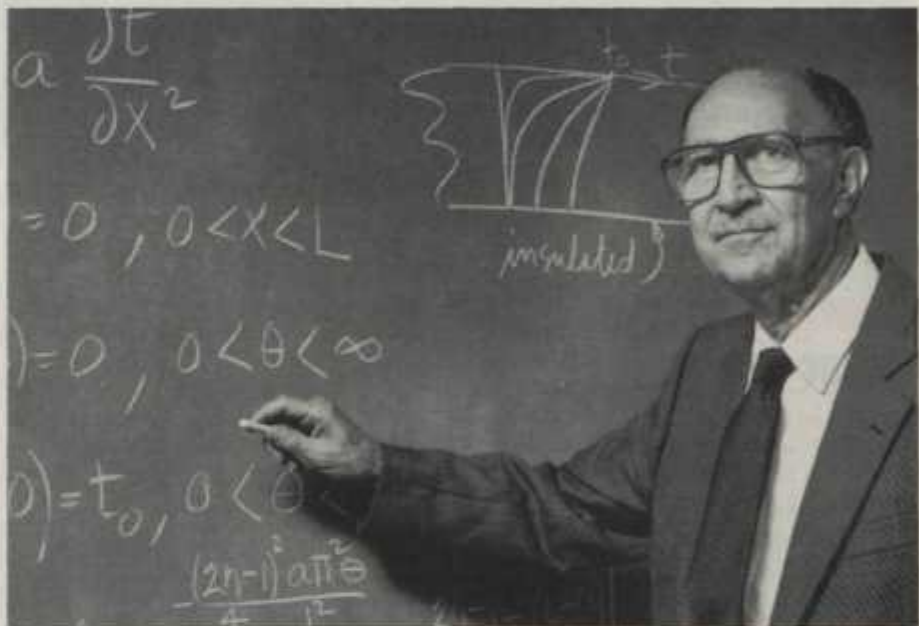


PHOTO: BRIAN CLINGMAN

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Heinz Poppendiek, another task force member and president of Geoscience Ltd., an energy research and development company in Solana Beach, Calif., agrees with Pettigrew that "at the very least, 20 percent of the proposals should be completely original."

If not, he says, and agencies continue to select proposed topics based on work they are already involved in, "then the question arises of what 'innovation' really means."

Lahoud says the program's biggest drawback is the amount of time allowed to lapse—as long as 18 months—between the two phases of a project. Up to \$50,000 is given for six months of feasibility studies before a second stage of awards from \$200,000 to \$500,000 for two years of related research and development of promising projects.

In Richmond, two months ago, at the first of the state conferences being held preliminary to the White House conference, a resolution was passed calling for less delay.

Small companies also say they need better access to current research. Pettigrew favors more formal joint innovation ventures between small firms and large federal and university research labs that have the financial resources to buy the latest sophisticated equipment.

Lahoud says the problem is that small businesses do not know where to go for the information. "It's a lack of communication, not information," he says.

The federal government has tried to get the information out. In 1974, the

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MANAGING YOUR BUSINESS

Innovation On The Line

Federal Laboratory Consortium for Technology Transfer was established to make research at the federal level available to state and local governments and the private sector. The Stevenson-Wydler Innovation Technology Act of 1980 requires agencies to encourage the commercialization of technology developed under federal contracts in government laboratories.

Individual agencies have also made efforts. The National Aeronautics and Space Administration publishes a manual that summarizes the inventions and projects it has been working on.

Barbara Griffin, president of Whale Scientific, Inc., in Commerce City, Colo., suggests that perhaps the way to let small firms know what research projects are commercially applicable is to issue a federal register of all the agencies' projects.

Griffin raises the issue of the government's passing out the intellectual property of companies that apply for patents.

"We manufacture plastic injection disposable parts for use in hospital and research labs and make diagnostic kits for use in clinical chemistry labs," she says. "Twice when we have put 'confidential' and 'not to be released' on our patent information, the data have been given out under the Freedom of Information Act, and I was not notified until after the fact. I don't understand what this law does except give my competitors access to my trade secrets."

FOIA allows the public access to information on loans, financial developments, production plans, new formulas

or products that are collected by federal agencies. There is an exemption to protect "trade secrets and commercial or financial information," but it is so narrowly defined that most business information does not qualify. Pending legislation in Congress would allow businesses an opportunity to prevent release of data they must submit.

As general manager of PPS Consultants, Phoenix, a high technology headhunting firm, Martin Jacobs sees a different innovation problem facing small businesses: attracting innovators—engineers and scientists—to their staffs.

He offers suggestions for enticing high tech innovators to small business: making tax treatment of incentive stock options more attractive so they will be used more by small companies; allowing employees to transfer years of service for pension plans from one company to another; and providing a tax incentive for small firms when hiring high tech personnel.

"Smaller businesses have a lot going for them," says Jacobs. "They are the first to hire and the last to fire, mainly because of the personal, almost parental relationship forged with employees who are more than just numbers."

Poppendiek concurs with Jacobs' assessment and adds: "Small business people are a plucky bunch. I think that if we go to the next White House Conference and really speak up and say what is in our hearts and stick to the critical issues, there's a wonderful opportunity to be successful." **MB**

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Wrapping Up Sales

By Nancy L. Croft

Chuck B., a Kansas City electrician, came up with what he thought was the best light bulb on the market. After years of putting in his basement, Chuck produced a special filament that would make a light bulb burn twice as long as the leading brand. He took out a small loan to start producing the light bulbs and could spend only a minimal amount of money on his packages.

"Surely everyone will want a light bulb that lasts longer," he thought. But after six months on drugstore shelves, sales barely budged, and Chuck had a basement full of light bulbs. He sold his company to pay off his loan and went back to being an electrician.

Though Chuck's story is fictitious, the situation is not. Like Chuck's long-lasting light bulbs, many worthy products are overlooked by shoppers because the products' packages do not stand out. Of course, a dull package can be only one of many contributors to a product's failure, but it can be an important one in a competition with well-known brands. Corporations spend \$5 billion a year on packaging, and it plays a major role in marketing a product.

As society becomes more sophisticated, so does packaging. According to John Deighton, professor at Dartmouth College's Amos Tuck School of Business Administration, early humans used leaves and animal skin to cover and carry food and water. Glass containers first appeared in Egypt as early as 2000 B.C. And when Napoleon sponsored a contest to find a better way to preserve food, a Parisian won 12,000 francs for developing a crude method of vacuum-packing in bottles. This event led to vacuum-packing in metal cans later in the century.

A recent development has been the aseptic package. Comprised of many layers of plastic impervious to oxygen and moisture, aseptic containers—already used for fruit drinks like Kool Aid and Hi C—reduce the need for refrigeration and provide long shelf lives.

Though packaging's main purpose has always been protecting products, today it also doubles as advertising. "Packaging is one area where small to medium-size manufacturers can compete with the biggies," says Lorna Opatow, president of Opatow Associates,

The manufacturer of Breyers ice cream decided that its standard package (inset) failed to reflect its premium-price status, so it is

The right package can make the difference for a new product, or for an older one that needs a chance to sell to a new customer group.

adopting a round container with a fashionably black background to build a more upscale image.

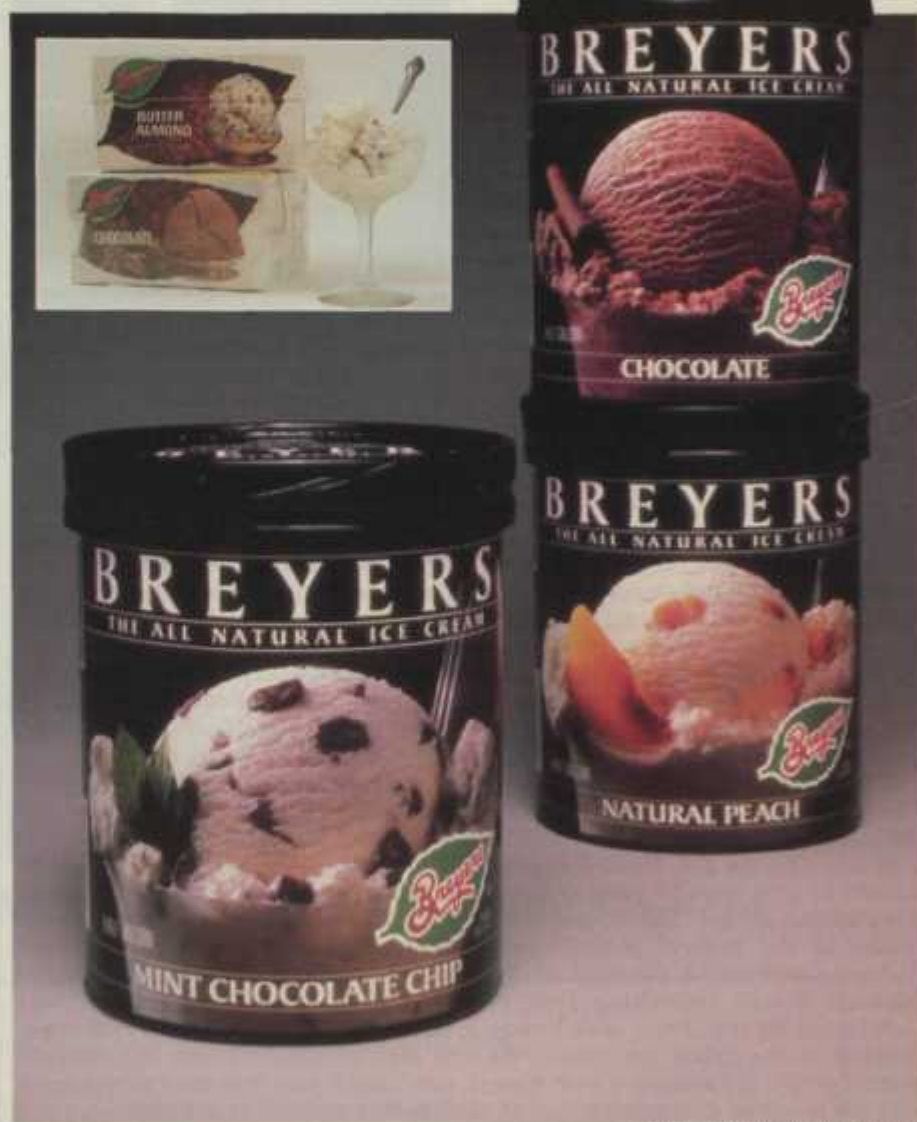


PHOTO: GERTSMAN-WYERS, INC.; INSET: TIM HARTLEY

Inc., a New York marketing research firm. With the skyrocketing cost of media advertising, many manufacturers are finding that investing in market research and innovative design increases product awareness and incentive to purchase just as much as spending the same amount of money on media advertising.

But before a company decides it wants a package design for a new prod-

uct or a new design for an old one, it must have some objectives in mind.

"Packaging is the result of a tremendous amount of information that must be gathered before you start designing," says the aptly-named Roy Parcels, a principal in the packaging design firm of Dixon and Parcels Associates, Inc. First a company must know what it wants its new package design to accomplish—whether it is to cut production

MANAGING YOUR BUSINESS

Wrapping Up Sales

What better container for a reading light that clips to a book than a package that is at home on a bookshelf?

costs, stand out from the competition, appeal to a larger or smaller segment of consumers or strengthen the company's image.

Next a company and its design firm have to know what the product's competition is doing. The package design has to be more innovative to attract attention in a competitive environment. Recent studies indicate that 70 percent of buying decisions are made in-store. So knowing exactly who is going to use the product and why is crucial, says Parcels. "Products are designed for specific markets," he says. "And different markets subscribe to different lifestyles."

Market segments include the growing number of singles and two-income couples who demand convenience (single-serving foods, smaller packages), health-conscious consumers who want natural products, the weight-conscious who want calories taken out of their foods, and, of course, affluent consumers who want to buy what they discern as high-quality products.

Whichever segment a company's product is intended to reach, the product's benefits must be communicated through the packaging—whether through the shape or makeup of the package itself or its graphic design. The packaging for the Itty Bitty Book Light, manufactured by Zelco Industries, Inc., cleverly communicates what the product is and who may need it. Open the cover of the book-like package and the reading light is stored inside. The package also conveniently fits on the bookshelf.

In late 1983 the H.J. Heinz Company wanted to give its wine vinegar line a more upscale image. "Heinz vinegar appealed to the general public," says Richard Gerstman, a principal of the package design consulting firm of Gerstman+Myers, Inc., which was brought in to update the look. "We wanted people to associate it with wine, with the image of gourmet."

Gerstman+Myers chose a wine bottle look-alike, with black labels and neckbands inscribed in "bright aristocratic type style," says Gerstman. The new design hit the shelves in 1984, and in only a year, the product's sales have increased 12 percent.

Dart & Kraft, Inc., also came to Gerstman+Myers to give Breyers ice cream a more contemporary, upscale look. The firm replaced the rectangular, white box cartons with round contain-

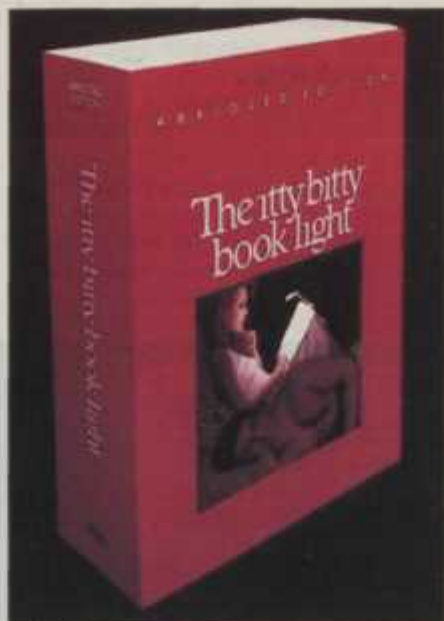


PHOTO: ZELCO

ers with black backgrounds. The scoop of ice cream pictured against the black background of the carton is a contrast that makes the product stand out in freezer displays.

Until recently black was thought to elicit an unhygienic image for food packaging, but with the high tech invasion, Gerstman says, black is now associated with affluence. The new design is being market tested west of the Mississippi.

Smaller companies are also trying redesigns. Austin Foods Company—a snack food manufacturer in Cary, N.C.—decided 3½ years ago that it had to upgrade its image to survive. "Product quality and modernization of the packaging had slipped," says Robert Burke, senior vice president of sales and marketing.

First, the company decided to enhance the quality of its peanut butter and cheese-filled sandwich crackers and cream-filled cookies. Afterward, says Burke, "we had a really good nutritional profile compared with our competitors", and it was important to communicate that with our new look."

Dixon and Parcels created a new logo for Austin—a red mill to symbolize product wholesomeness. Red bands on the labels promote the 100 percent vegetable shortening and the lack of preservatives in the product.

In market tests of the new design, says Burke, "people perceived our product as a higher quality" than the competition's. Sales have also nearly doubled in three years, according to Burke.

A package that provides a convenience for the consumer or the retailer is a marketing plus. When microwave ovens revolutionized cooking, frozen food manufacturers saw an opportunity to create a convenience by packaging entrees that can be cooked and served on (and even eaten from) a stylish plastic dish. And with plastic moving in on aluminum cans' turf, companies like Campbell Soup are looking for competitive packaging alternatives. Campbell has been test marketing soup packaged in a plastic bowl ready to heat in the microwave and then serve.

The Murphy-Phoenix Company repackaged its Murphy Oil Soap to become more attractive to consumers as well as retailers. The all-purpose liquid household cleaner, which is manufactured in Ohio, for more than 70 years had been packaged in cylindrical containers. Compared with brands like Top Job and Mr. Clean, Murphy's containers—which come in 16-ounce and quart sizes—were shorter and looked as if they contained less detergent. And to retailers' dismay, Murphy Oil Soap's containers were also more difficult to stack and took up more shelf space.

Seeking the help of Gerstman+Myers, the company reshaped the containers to allow more of them to be stacked on store shelves than before. A handle was added to the quart bottles because some customers had a problem lifting the container when it was slippery with soap. The logo was also designed to better stand out on the label.

"Sales have been booming," says the company's vice president of marketing, Paul Murphy. Since the redesign was introduced in January, he says, "we've had at least an 8 percent increase."

If a company has a new product and needs a design, market researcher Opatow suggests seeking the guidance of a package design consultant. "A designer is someone who combines art and typography with the knowledge of marketing, and also understands what the printing problems might be—the whole ball of wax."

Once a company has determined the objectives it wants to achieve with its product's package design, whom the package should attract and how it will outshine the competition, there is one more thing to be aware of.

"Don't overpromise," cautions Gerstman. "If the package overpromises and consumers think it's going to do more than it really does, they won't buy it again." ■



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CIGNA

The Home Team Advantage

By Chuck Jaffe

No joy in Mudville? Not according to the Mudville Chamber of Commerce, assuming that the mighty Casey has been at bat for a major league baseball team.

The Mudville stadium is full of screaming fans—at \$7.50 a seat and \$2 for parking—and concessionaires are selling out. Business outside the stadium is getting a big boost—hotels, motels, restaurants, stores, cab companies and other enterprises are benefiting from the influx of visiting teams' players, officials, fans and accompanying media. And the local government is receiving millions in taxes from money spent at the games. Mudville business leaders are ecstatic.

But somewhere in this favored land, there are no Caseys to strike out. The money-making joys of baseball go to cities with big league franchises only.

A number of big cities without teams are drooling over the thought of getting franchises. Baseball Commissioner Peter Ueberroth has called major league expansion "a front burner issue," and speculation is that six teams will be added to the two leagues by 1990. Though no formal expansion plan has been drawn up, 11 cities are winding up to make a pitch for franchises.

Buffalo, Denver, Indianapolis, Miami, Tampa, St. Petersburg, Vancouver and Washington all have "baseball groups" in place and are preparing proposals for new franchises, says Chuck Adams, a spokesman for the commissioner's office. Leaders in New Orleans, Phoenix and Portland also want to be included in expansion talks.

The groups have been actively pursuing both investors and fan support. In Washington, for example, more than 4,400 people have opened "baseball bank accounts." If the city gets a franchise, account holders will turn in their money for season tickets. In another Washington promotion, more than 500 little leaguers lined up for 45 blocks to toss a baseball from one to another in a version of the Olympic relay.

Most observers believe expansion—once the major league owners approve

Super players like Cincinnati's Pete Rose draw fans—and lots of money—to the ball parks of cities with major league teams.

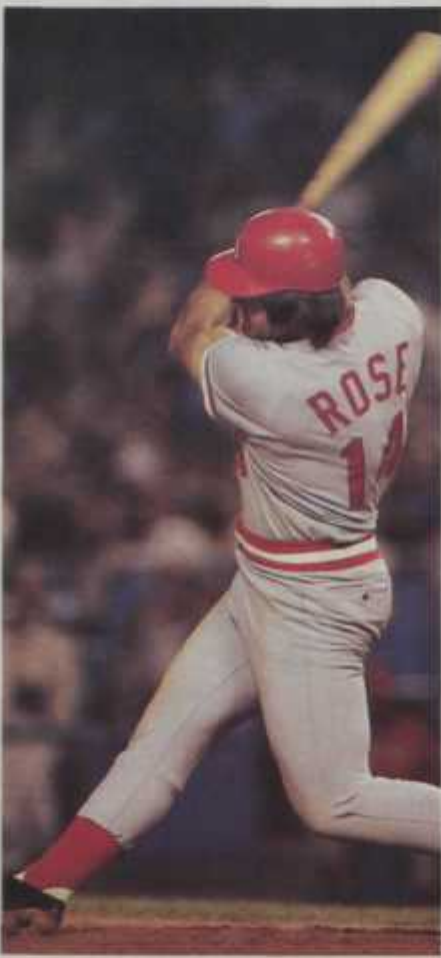


PHOTO: FOCUS ON SPORTS

it—will come in two stages. By 1987, two teams are expected to join the National League, giving the National and American Leagues 14 teams each. By 1990, two more teams could be added per league, bringing the number of franchises to 32 and "probably ending major league expansion until sometime in the 21st century," Adams says.

With a franchise pumping millions of dollars into a city's economy, every city interested in obtaining an expansion team is thinking about hitting an economic home run.

The value of that home run has never been determined by the commissioner's office. Says Adams: "We know that a

team means a lot of tax money, fills up the hotels and gives a city national television exposure and civic pride, but we can't break that down into dollars and cents."

Independent studies on existing franchises make it clear, however, that cities awarded expansion teams can't lose.

The Pittsburgh Pirates—though they finished dead last in the National League East—brought \$36.48 million to the local economy last year, according to a study by the *Pittsburgh Press*. The Pirates had one of the lowest 1984 attendance figures in the major leagues.

Now the Pirates, once again in last place, are for sale. Leaders of a number of baseball groups have said they want to buy and move the team. Pittsburgh recently staged a "ballot by ballpark" day to show the city's support for the team, but only 31,000 fans showed up. The price tag for the Pirates? In excess of \$35 million. Says one Pittsburgh Chamber of Commerce official: "It would be worth \$50 million for a city that really wants to get a team."

New York City Controller Harrison J. Golden says that a 64 percent increase in attendance at New York Mets home games in 1984 meant \$28.6 million for the city. That gain was virtually wiped out by a 20 percent drop in attendance at New York Yankees games across town, but Golden estimates that New York still picked up more than \$100 million because of the two teams.

The city of Chicago estimates that the Cubs and White Sox added a combined \$100 million to the local economy in 1984, up \$13 million from the previous season.

From 1978 through 1980, Milwaukee business took in \$123 million as a result of Brewers home games, according to a study by the University of Wisconsin-Milwaukee Management Research Center. In addition, the center says, the county government gained almost \$4.5 million in cash receipts, and 1,000 jobs were created as a result of the Brewers' presence.

St. Louis officials say the 1982 World Series pumped \$50 million into the local economy—on top of the \$50 million the Cardinals helped bring the city during the regular season.

And Frank Morsani, chairman of the

Chuck Jaffe is a business writer based in St. Petersburg, Fla., who once covered the Detroit Tigers as sports editor of the Michigan Daily.

Big league baseball means big money for businesses in the teams' home cities. With expansion close at hand, cities without teams are working hard to get one.

Often the big winners at baseball games are not the players but the vendors who hawk hot dogs, beer and souvenirs during games. The value of

a major league franchise to a city can be as high as \$50 million a year.



U.S. Chamber of Commerce and head of the Tampa Bay Baseball Group, and Cedric Tallis, a former big league team general manager brought in to advise the group, believe baseball could generate \$50 million a year in the Tampa Bay area. Spokesmen for two Denver baseball groups—one involves billionaire oilman Marvin Davis, the other millionaire brothers John, George and Deno Dikeou—predict a similar impact on Denver's economy.

Not only are big cities trying to lure expansion teams, but several Florida cities—some small enough to fit inside a big league stadium—are trying to get a team for six to eight weeks of spring training. The returns on a city's investment are often 4 to 1.

Tabcor & Associates, of Orlando, studied what value the Houston Astros—who then did their spring training in Cocoa Beach—would have for the town of Kissimmee. Tabcor's study convinced Kissimmee leaders that they could expect at least \$40 million over 10 years if they could lure the Astros. The study prompted the Osceola County commissioners to pledge \$9.1 million in expected resort tax revenues for a stadium. Another \$2 million is needed for stadium maintenance over 10 years.

"Forty million on an \$11 million investment—that's not a bad return," says Gary Powell, executive director of

the Kissimmee-St. Cloud Convention and Visitors Bureau. The Astros signed a 10-year, \$10,000-a-year lease and moved to Kissimmee this season.

Pirates Manager Chuck Tanner says baseball is worth at least \$20 million to Bradenton—a figure that includes the impact of the Pirates and a year-round minor league training complex, which houses four teams for most of the year.

Bill Olivero, owner of Bill & Bev's Dugout, next to the stadium, says business increases by more than 30 percent when the Pirates are in town. Bradenton lost the Toronto Blue Jays instructional league team for the summer because the field is being reconditioned. Olivero says it will cost \$24,000 in business. "It cost one of my waitresses \$200 in tips and the other \$150," Olivero says. "There's a motel down the street that lost over \$30,000 because of it."

In Fort Myers, a local business group wants to spend \$5 million to refurbish 53-year-old Terry Park, winter home of the Kansas City Royals. If the city does not approve the plan, the Royals could move to Port Charlotte, where the county is raising \$6 million to build a spring training complex for the first major league squad interested in new facilities. New Port Richey has also expressed interest in the Royals, who are worth \$5 million per year to the

Fort Myers economy, according to the Fort Myers Business Development Corporation.

For cities waiting for a team, every hope hinges on the current big league owners and on Ueberroth. The new commissioner insists he will not allow existing teams to move from city to city. That might stop a number of groups interested in acquiring the Oakland A's or the Pittsburgh Pirates.

Even then, no city will be a cinch to get a team. Ueberroth said on opening day in March that none then were ready for an expansion franchise. He listed his criteria for expansion as "No. 1, that ownership has roots in the community; No. 2, that the community has great fans; and No. 3, that the team has the support of the city, county and state—in other words, the politicians."

Ueberroth says teams are often money-losers. In 1984, major league baseball lost \$66.6 million, with 18 of 26 teams operating in the red. The last profitable season was 1978, when the 26 teams combined earned just \$4,586.

"We expect to hear from more cities by the time the owners vote to expand, and we will treat each entry fairly," says Adams. "No one city has an inside track. A lot of cities want a baseball team. We are out to see which city can best support a team, not who throws the best cocktail parties." ■

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Avoiding Pension Shock

Companies can prevent bitter disappointment for their executives by changing retirement plans.

By John O. Todd, Jr.

Harry Cooper had been looking forward to a comfortable retirement. Harry, 65, and his wife, Lucy, 58, both vigorously healthy, had been planning to do all the traveling they had put off while Harry had built his career.

With their large family, the two had not saved much over the years, but Harry had not worried about that because he would be getting a liberal pension from his company, plus Social Security.

The Social Security amounted to only about \$750 a month, but the pension looked great. Harry knew it paid 50 percent of salary, and his pay—with a push from inflation—had risen to \$75,000, including a nice 25 percent annual bonus that he assumed would count toward the pension. He and Lucy thought they would get \$37,500 a year from the company.

They had another think coming. Like many others, Harry had not really investigated the details of his company's pension plan. So the day he retired, he was shocked to discover that his annual pension benefit would be only \$18,300. That was 75 percent less than he had been making the day before.

A variety of factors had cut deeply into Harry's pension. I call them the great debilitators, and they can affect every one of us at retirement. They are (1) bonus exclusion, (2) average salary, (3) years of service and (4) spousal benefits. Few people are even aware of these factors, but look what they did to Harry's pension expectations.

As is typical with most pension plans, Harry's bonus did not count; where the plan was concerned, his final salary was \$60,000, not \$75,000. And since the pension payments were based on the average of the five highest pay years, the base was not even \$60,000—it was \$52,620, his average salary over the past five years. Those two debilitators alone reduced Harry's compensation al-



ILLUSTRATION: CAMERON DELANEY

most 30 percent. Then, the years of service debilitator cut it still further. Since Harry had joined this company when he was 40, his 25 years of service were only 83 percent of the 30 years stipulated by the plan. So his pension base was down to \$43,830.

As a result, the maximum annual pension Harry could get was less than \$22,000. And if he was to provide two thirds of that for his wife after he died, he would have to take another \$3,640 annual cut. That \$37,500 pension he had expected had dwindled to just under \$18,300. Add in his Social Security income, and he would still have only about one third of his preretirement income.

Harry's is not an isolated case. Thousands upon thousands of people just like him face much the same plight. And the plight grows worse after retirement because of inflation. Most private company pensions provide incomes that are fixed. If inflation averages just 5 percent, it will cut a pension's buying power in half in only 14 years. That erosion would take Harry's income to just above the poverty level.

Harry and executives like him are victims of a reverse discrimination built into qualified pension plans and reinforced by existing legislation. (A qualified plan is one approved by the Internal Revenue Service. Payments into the plan are tax-deductible.) One of America's best-kept corporate secrets, the reverse discrimination that cut Harry's income (including Social Security) by 64 percent the day he retired penalizes talented, motivated executives who worked their way to the top by serving their companies well.

Consider the 55-year-old janitor who works on Harry's floor. He is making \$15,000 a year. If he stays with the company until retirement age and keeps getting cost-of-living increases, he is likely to be making \$23,270 when he retires. But the total of his pension and Social Security benefits after he retires will be 83.9 percent of his preretirement income.

Stated another way, that janitor's income the day he retires will be over 70 percent of the amount Harry retired on. And since the bulk of the janitor's income will come from Social Security,

John O. Todd, Jr., is a principal in two Pasadena, Calif., enterprises that specialize in executive compensation—the nationwide John O. Todd Organization, which designs and administers compensation plans, and CAP Associates, which does consulting.

MANAGING YOUR BUSINESS

Avoiding Pension Shock

which increases payments each year to allow for inflation, his real income will actually surpass Harry's by the time he reaches 80—at his present age, his life expectancy. In 1985 dollars, Harry will be receiving only about \$19,400 when he reaches 80, and Lucy can expect another 10 years on her survivorship income of less than \$13,000, an income that inflation will continue to erode.

Clearly, qualified pension plans are diminishing in value. Corporations are concerned, but they simply cannot afford to increase their qualified pension benefits across the board. The government is aware of the problem, too. Not only did it open up individual retirement account tax deferral plans to help employees put away money for retirement, but it also passed legislation that enabled tax-deferred investments for employees under Section 401(k) of the Internal Revenue Code.

Under Section 401(k), corporations can establish plans that enable their employees to contribute up to 20 percent of their salary tax-free, and put it in one or more investment vehicles. These contributions reduce employees' taxable income, often placing them in a lower tax bracket, and enable them to build estates for retirement.

None of the contributions or yields

they earn are taxed until they are withdrawn. And if the employees stay in the plan for at least five years and don't withdraw funds before they become 59½, the withdrawals receive very favorable tax treatment, typically only about 15 percent.

The 401(k) plans are becoming very popular—more than half of all medium-to-large U.S. corporations have installed or are considering installing such plans. But a 401(k) would not have completely solved Harry's problem. Because a 401(k) plan also is a qualified plan, it contains rigid nondiscriminatory rules that effectively limit the amount executives like Harry can put away for their retirement.

So more and more companies are augmenting qualified retirement plans for their executives with *nonqualified* retirement plans that need not be rigidly nondiscriminatory.

Moreover, the plans need not be prohibitively expensive to the corporation. In fact, since the corporation will outlive the executive, such plans can return the company all its costs plus a return for the use of its money.

Such nonqualified executive retirement plans can be structured in various ways. The simplest, of course, is for the company to make up the shortfall for

retired executives out of operating income. However, this approach saddles future management with an ever-increasing liability that it may be in no position to fund.

Another approach is corporate self-funding of pension supplements by investing in tax-advantaged vehicles like municipal bonds or potentially high-appreciation vehicles like company stock.

Perhaps the safest approach is to use life insurance to redress the inequities of the pension plan. If the company takes out a policy on each executive's life, it can virtually guarantee that the executive—and his widow—will be provided for. The policy payments are not tax-deductible for the corporation, but the death benefits to the company will almost inevitably return all of the costs of the extra compensation plus premiums when the executive dies.

Another approach is to provide a structure whereby the executive funds some or all of the premium costs. If the company had reduced Harry's bonus \$3,800 a year for just four years when he was 45, the reduction would have cost Harry only about \$2,300 a year after taxes. But the company, with that saving in compensation expense, could have bought an insurance policy on Harry's life that would have paid the company \$600,000 at his death at age 80—enough for the firm to have given Harry an extra \$20,000 a year at least, and still cover the premium costs.

Moreover, the plan could have been structured so that when Harry retired, he and Lucy would receive an additional \$19,200 a year—they would indeed have gotten the \$37,500 they had expected. And these payments would continue for 20 years thereafter. Indeed, with a subsequent policy or policies, the company could even have increased Harry's retirement income to protect him from the erosion of inflation. And the company would always have been assured that it would recover its costs.

Other plan structures based on life insurance are possible. In every case, the plan can be structured so that the company will recover all its money yet still provide its executives what they need in their retirement years. That is exactly what a retirement plan should do. The Harry Coopers of American business deserve more than a poverty-level income when they retire. ■

Starting Early To Protect Executives

Protecting its executives against reverse discrimination in retirement pay takes some planning on a company's part, but it is a relatively straightforward process.

Assuming the company wants its executives to retire on a certain percentage of final income, the company must first project what that income is likely to be at retirement.

Career patterns vary, of course, but a good rule of thumb for executives who are 45 or older is that their income will increase about 10 percent a year. Simply applying that factor to each executive's number of years till retirement should give a reasonably close approximation of each executive's income at retirement.

By applying its pension plan rules to that figure, a company can calculate probable payments.

To that amount should be added Social Security income, and income from any other qualified programs the company may have.

The difference between that total and the desired percentage of final income defines the shortfall in the executive's retirement income.

Then it is a simple matter to design a financing program that will enable the company to make up the shortfall.

The earlier this analysis is made, the better, of course, since it is compounding interest that creates the funds needed to pay the retirement benefits.

But with insurance as the financing vehicle, programs can still be devised for executives in their late 50s that will make up the retirement benefits shortfalls and enable the company to recover all its costs.

—John O. Todd, Jr.

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Computer Explosion In Small Firms

By Harry Bacas

At the front counter of Holmes Auto Body Shop in Pasadena, Calif., a customer gets a computerized estimate from an order writer.



PHOTO: CHRISTOPHER CASLER

The repair and refinishing business at Holmes had increased so much that the owners had to automate to keep operating efficiently.



A current ad for AT&T declares: "The right computer system can give you a competitive edge in business. That's the long and short of it."

Another ad says: "IBM offerings help make business professionals more effective and productive."

A third ad says a Sperry system "will do more of everything around the office, for everybody in it."

Ads like these in business publications are signs of the growing competition being waged these days to automate America's offices. Personal computers have become the largest part of the \$60 billion a year computer market, and small business is the fastest growing segment.

In the rush to serve this demand for automated information systems, telecommunications companies are selling computers, computer companies are installing communications, and hardware manufacturers are writing business software.

Despite the well-publicized computer industry slowdown, market researchers expect the number of desk-top comput-

er systems to triple from 17 million in 1984 to 50 million in 1989.

But the market is changing. Business owners and managers seeking to make their offices more effective are beginning to pick and choose more carefully among competing vendors. Analysts say it is becoming a buyers' market.

Maureen and Tom Holmes, for example, knew they had to do something this year when business at their Pasadena, Calif., auto body shop reached 50 cars a week, \$250,000 a month. The paper work was threatening to overwhelm the business.

"We realized we needed a more efficient way to get better information," says Maureen, the company's president.

The Holmeses analyzed their needs, researched the market carefully to see what was available and then spent \$57,000 on a system that would allow simultaneous writing and pricing of job orders along with back office operations. It had to track time and materials, keep inventory, prepare estimates, run the payroll, do the accounting, and print invoices, checks and letters.

What they wound up with was a highly specialized package developed and sold by Auto Tech Management Systems in Santa Monica, Calif., using a Point 4 computer, six terminals and five printers.

The Holmeses' experience illustrates two emerging trends in office automation. One is the growing importance of vertical niches in the market, where special products are designed to serve a single industry, like auto body repair or dentistry or real estate.

A second trend is the growth of "systems integrators," companies that analyze a business' needs and provide a turnkey package of hardware, software, training for employees and support of the system after the sale.

The big computer companies are learning that business customers want products that work together in an integrated way to provide solutions to their business needs.

For example, Honeywell pledges that for customer satisfaction, "we'll start from scratch or work with your existing equipment, and we'll service any part of the systems we develop, includ-

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TECHNOLOGY

Computer Explosion in Small Firms

With 9,000 stock items, the A.J. Felz plumbing and heating supply company in Burlington, Mass., needed a better system to keep track. It got one.

ing equipment from other manufacturers."

To improve their integrated offerings, companies are forming new alliances. Xerox sells AT&T network hardware. A regional phone company, Nynex, sells Data General hardware and software. Southern Bell and South Central Bell have ties with manufacturers that let them "automate your office like no one else can." Pacific Bell has teamed with Wang to outfit "intelligent" buildings with control and communications equipment that tenants can share.

IBM bought Rolm for its communications expertise; AT&T bought into Olivetti for its computer expertise.

But integration has not come easily. The marketplace is still full of products that may function poorly or not at all with one another, and buyers have become wary. "The slowdown in the computer industry has come because the industry hasn't delivered on its promises," says International Data Corporation analyst Tim Caffrey. "You can sing the song of integration till you're blue in the face, but if you can't deliver the goods, people won't buy."

John J. Connell, executive director of the Office Technology Research Group, says consultants and software suppliers have assumed a greater role in automation because business people are realizing that hardware alone will not solve their problems.

Consequently the retail computer store staffed by clerks who know little about the products they sell, and less about business operations, is losing out to dealers that give better service.

Franchise chains like ComputerLand, Valcom and Entre have added training centers, support staff and larger outside sales forces to their stores to better compete with the systems integrators.

Central Computers, a Valcom franchisee with six stores in Wisconsin, teaches several hundred customers a month at its training center.

Bruce Nehls, a sales representative with Central Computers, says store consultants must work with customers because "75 percent of the business people we meet don't know whether they want a spreadsheet or a full-blown accounting package, whether they need a simple word processor or an all-out work center."

The A.J. Felz Company, a \$3 million a year plumbing and heating supplies



PHOTO: T. MICHAEL KEZA

wholesaler in Burlington, Mass., is an example of a company that has been automating gradually.

Felz used to have an IBM computer service bureau do its accounts receivable and payable, at a cost of about \$10,000 a year. Then it got a small computer system of its own to do the accounts as well as the payroll and the mailing lists. But the programs lacked many features, and the firm still used manual methods to manage its inventory of more than 9,000 items.

"Each of our 200 lines has a different price structure," explains Mark Felz, treasurer of the family-owned firm. "We have complex differences based on quantity, payment, customers and so on. A lot of it was carried in our heads. It was chaotic."

"We did not have sufficient up-to-date information to run our business," Felz says he "searched extensively"

for a dealer who could provide a full featured system "and one stood head and shoulders above the others for the service he gave." That was Peroni Business Systems in Bedford, Mass.

Peroni studied the Felz operation and recommended accounting software from Real World Corporation in Chichester, N.H., running on an Altos computer with several terminals. The dealer would modify the program to suit Felz's situation but was careful to demonstrate what the system would and would not do.

"Adapting the program exactly to our old way of handling inventory was impossible," Felz explains. "So we and the consultants made changes in our system we could live with and that they could accommodate on the program."

Peroni's people installed the system on weekends because the company could not afford to shut down during the week. And when the system broke down on New Year's Eve, a technician worked on New Year's Day so it would be operational the next morning.

"Now it's working beautifully," Felz says. "I can get financial statements every month and do all kinds of sales analysis and reports. Now we can make sound decisions about our business instead of flying by the seat of our pants."

Success stories like the Felz Company and Holmes Auto Body are fueling the growth of office automation but altering its direction.

Dealers are emphasizing their consulting services and user-training centers and are shifting from store clerks to outside sales forces. Software companies are writing vertical applications programs. Manufacturers are encouraging "value-added resellers" to integrate the manufacturers' products into their packaged systems.

One analyst calls it "a more heterogeneous selling environment for systems vendors than in the past."

Who will win the office automation competition? Industry pioneer Alan Kay says, "Those companies that can deliver peace of mind in the form of services that are recognizable are the ones that will win."

The other winners will be the business people whose automation purchases help them run a more efficient business. ■

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TECHNOLOGY

Sharing The Load

Networks will make business more efficient, but the new technology is slow to catch on.

By Harry Bacas

Networks to link personal computers are one of the keenest topics in office automation these days.

David T. Kearns, chief executive officer of Xerox Corporation, says his company's office automation plan is "committed to a networking strategy that will enable us to interconnect our products and those of other vendors."

Xerox, better known for its copiers, was a pioneer in developing standards now used by many other producers for local networks to connect desk-top computers with one another and with other office equipment.

AT&T, which follows those standards and whose network hardware Xerox is now using, says, "In the long run, your success with office automation will have less to do with whose machines you buy—or how many—than with how freely information travels among them."

Nevertheless, some analysts say a chief reason for the computer slowdown this year is the industry's slowness to adopt standards and to develop more effective networks.

Larry Garcia, a technical consultant at Inacomp Computer Centers, which operates 53 stores in Michigan, says he had to tell an auto parts manufacturer that its plan for an accounting network with 11 work stations would take six months or more to implement because he could not get suitable software.

"There is very little good network software available," Garcia says.

There are two kinds of systems to link office workers. One, based on an older technology, uses simple terminals connected to a single shared computer. The other, and newer, connects a group of personal computers, each with its own computing ability, through a "local area network," with one of the computers acting as the traffic manager.

"These are two different strategies for automating small business," explains Tim Caffrey, International Data Corporation office analyst, "and the issue of which to use is not resolved. People want to link the personal computers they already have, but the local area network is new, and there is not much software out there for it. We need all kinds of applications programs to make networks really useful, and they haven't been written yet."

Richard Gray, controller of Phoenix Development Corporation, Oakton, Va., networked his computers so several jobs can be run at one time.



PHOTO: T. MICHAEL KEZA

Where the programs have been written, however, small business is using them happily.

Richard Gray, controller of Phoenix Development Corporation, a site development firm in Oakton, Va., is pleased with the network recently installed in his office by Win Data Consultants, Ltd., of Gaithersburg, Md.

"We wanted to get more users on the system," says Gray. He has an IBM PC-AT in his trailer office and two more work stations in other rooms, linked by a Novell network and running software programs for job costing, gen-

eral ledger, billing, inventory and payroll for 160 employees. The software is from Libra Programming, Inc., of Salt Lake City.

Another personal computer is out in the shop building to handle preventive maintenance schedules and costing on the heavy equipment. It is not linked to the network yet, but it will be soon.

Gray wants a project management program next and expects to add two more personal computers to the network for estimators to use.

As far as he is concerned, the network is doing fine.

A Checklist For Automation

A useful guide for businesses thinking of automating their offices is a new checklist. It focuses on order processing, but most of the list applies to any kind of office automation.

The checklist explains what a computerized system can do, how to plan it to suit your needs, how to select a consultant and how to choose and work with a vendor.

It deals with benefits of automation, like reduced errors, improved service, better analysis and control, and with pitfalls.

For a free copy, write *Customer Service Newsletter*, 8701 Georgia Avenue, Silver Spring, Md. 20910, or phone (301) 585-0730. Ask for "Checklist for Going On-Line With a Real-Time Order Processing System."

The Electronic Workplace

By Harry Bacas

Computers To Go

On the road, a portable computer like this Radio Shack model can take notes, store addresses and reach office computers by telephone.

Small portable computers that executives, salespeople or professionals can use on an airplane or in a hotel room or a client's office make up a growing segment of the computer market.

New models have been added recently by Hewlett-Packard, NEC and Radio Shack to their existing portable lines; Data General and Epson have produced upgraded versions of their small portables; and Kaypro has just introduced its first model.

"The market is still in a very, very early stage," says Hewlett-Packard Marketing Manager Rick Baker. "It is developing in vertical segments, among people who put a high premium on portability." Baker thinks the fastest growth will come in sales force automation. The Bureau of Labor Statistics estimates that 4 million sales representatives in this country work without automation equipment.

"A salesman spends one third of his time on administrative details, order forms, phone calls," says Baker. "If he has a portable computer and can tie all that into his company's central system, it will free up 10 percent of his time in which to sell. He can put his call book on the computer, listing each client's characteristics and what kind of things the company orders."

"An auditor or consultant, instead of going back to the office, can use his portable to do a lot of analysis on site."

Small portables are sometimes called lap-top or briefcase computers to distinguish them from the earlier "portables" that combined a viewing screen and base unit in a single box but weighed a hefty 30 pounds. The lap-top portables are much smaller and usually weigh 10 pounds or less.

In the under-\$1,000 category, Radio Shack's Model 100 was the early and continuing favorite of journalists and others who did not need much computing power but valued notebook size and easy communications through any telephone. Model 100 now sells as low as \$299 and has been joined by a Model 200 with larger screen, more capacity and a



PHOTO © MICHAEL KEES

higher price tag. Competition in this bracket comes from Epson, NEC and Sharp, which also have several models.

In the top-end category, typically priced at \$3,000, the major manufacturers are Hewlett-Packard, Data General, Texas Instruments, Grid, Morrow and now Kaypro. Here there are wide choices in design. Grid is the only one with an illuminated (but power consuming) plasma screen; Data General is the closest thing to a full substitute for a desktop computer; and Hewlett-Packard is the only one which records on an "electronic memory disk" that stays on when the computer is shut off.

NEC recently sold more than 1,000 portables to Metropolitan Life Insurance Company, and Hewlett-Packard is furnishing portables to sales personnel of Chevron Chemical Company.

Technology Notes

□ International Business Machines is offering its first modems for transmitting data from personal computers over telephone lines. One model mounts inside a PC, the other is external.

□ Computer slowdown? Sun Microsystems reports a revenue gain of nearly 200 percent for its fiscal year just ended, up from \$89 million to \$115 million, and a net income increase of 220 percent, to \$8.5 million.

□ Micro Data Base Systems is running a \$1 million prize contest to promote its new integrated business software system, KnowledgeMan/2.

□ About 1,300 computer programs developed by more than 100 federal agencies and available to business are listed in the Directory of Computer Software, available from National Technical Information Service, Springfield, Va. 22161, (703) 487-4650. Another

government service: The Defense Department has a new electronic bulletin board that allows exporting firms to track the progress of export license applications they make to the Commerce Department. Anyone with a computer and modem can reach the board at (202) 697-6109.

□ Not all government systems are "go." The General Accounting Office tells the Federal Aviation Agency it would be more cost-effective to keep live weather observers at commercial airports than to install a planned \$60 million automated weather observing system.

□ Philips Information Systems has sold 1,100 computers equipped with word processing and FORTRAN software to the New Jersey Institute of Technology, to be supplied free to freshman students.

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Microprocessor 16/24-bit 80286* Real and protected modes*	Languages BASIC, Pascal, FORTRAN, APL, Macro Assembler, COBOL
Auxiliary Memory 1.2MB and 360KB diskette drives* 20MB fixed disk drive* 41.2MB maximum auxiliary memory*	Printers Supports attachment of serial and parallel devices
Keyboard Enlarged enter and shift keys 84 keys 10-foot cord* Caps lock, num lock and scroll lock indicators	Permanent Memory (ROM) 64KB Clock/calendar with battery*
Display Screen IBM Monochrome and Color Displays	Color/Graphics Text Mode Graphics Mode
Operating Systems DOS 3.0, XENIX* PC/IX LI	Communications RS-232-C interface
	Networking High-performance, high-capacity station on the IBM PC Network*

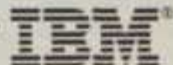
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Trucking Turns A Corner

By Jean Murphy

Trucking companies have made huge investments in marketing programs, terminals and computer technology to compete in the new deregulated

environment. With the investments behind them, they now look forward to improving profit margins.



PHOTO: TOM TRACY—BLACK STAR

At first glance, the Cherryville, N.C., headquarters of Carolina Freight Carriers appears to have been invaded by frogs. Images of the hopping, green amphibian are everywhere—on walls, bulletin boards, desks and even on important papers that demand expedited attention. The ubiquitous symbol serves to remind Carolina employees of a promise the company makes to its tens of thousands of customers: "When you call, we jump!"

President and Chief Executive Officer Kenneth G. Younger says the commitment underlying that promise is what his company is all about. "There is nothing complicated about our management philosophy," he says. "We simply never lose sight of the fact that we are in this business to serve the customer and to do it better than anyone else."

That philosophy, coupled with the well-planned acquisition of three other motor carriers, enabled Carolina to in-

crease its revenues from \$215 million in 1979 to an estimated \$525 million this year; and to jump from the 19th largest trucking company in the country to eighth place.

Younger attributes much of Carolina's success to the 1980 law that deregulated the industry, removing restrictions on pricing, entry and expansion of operations. The end of restrictions "allowed us to act quickly on our decision to expand," he said. "Frankly, I think we know how to run our business a lot better than the government does."

The 1980 law ended 50 years of strict regulation, but the transition was highly traumatic for much of the industry.

The increased competition brought on by removal of controls was soon intensified by the recession of the early 1980s, and the total impact on the industry was enormous. A number of truckers did not survive, and purchases of equipment fell drastically.

Companies that were able to adjust, however, are beginning to reap the benefits of operating in an unrestricted environment. Many have achieved significant revenue gains. The three larg-

est carriers—Roadway Express, Yellow Freight and Consolidated Freightways—had combined revenue increases of \$575 million last year, for example.

Other carriers that have made the tough decisions necessary to adapt marketing and management techniques to the realities of open competition include ABF Freight Systems, of Fort Smith, Ark. After extending its coverage and enlarging its customer base through the purchase of two financially troubled carriers, ABF embarked on expansion that, as yet, has no end in sight. Last year the company opened 30 new terminals, and it is opening an additional 40 this year. President and Chief Executive Officer Robert A. Young III says the company will continue opening 20 to 40 terminals each year "for the foreseeable future." Young notes that ABF, the nation's seventh largest general freight carrier, still has fewer than half the number of terminals of any of the Big Three. "There is a lot of room for us to grow," he says.

Although the revenue picture is increasingly bright for the industry generally, the higher income has not gener-

Jean V. Murphy is a Washington-based writer who specializes in transportation subjects.

Has price cutting bottomed out in an industry that is adjusting to deregulation?

ally produced the profit levels carriers found in past recoveries. This is due to continued price-cutting and to extraordinary investments required for carriers to compete in the new environment. Huge sums have been spent to strengthen marketing and management programs, to build new terminals and to upgrade computer capabilities. In the long term these expenditures should have a positive impact on the bottom line. Industry analysts caution, however, that only a sustained period of economic growth, or further consolidation of the industry, will push tonnage levels to a point where transportation demand equals supply.

Lagging profits have only slightly dampened the confidence of industry leaders, who are encouraged by a number of other developments. Among them are strong indications that price discounts have bottomed out. Sean Callahan, a vice president of Preston Trucking Company, Preston, Md., says Preston was successful this year in obtaining rate increases of from 4 to 5 percent from many of its volume shippers—"something that would have been impossible a year ago."

Says Callahan: "Shippers are now showing more understanding of our revenue needs. Proposing a rate increase may initiate a dialogue, but it is not likely to end the relationship."

Carriers are also encouraged by shippers' growing willingness to accept and use simplified rate structures. The major trucking companies have all developed ZIP code-based rating systems that make rate calculations for various weights and commodities a simple, quick task. Necessary information generally is supplied to the shipper on computer disks. In addition to saving time and money, computer-generated rates are automatically audited and are almost completely error-free.

Another boon for major LTL (less than truckload) carriers was the successful negotiation this year of a three-year labor pact with the International Brotherhood of Teamsters. (LTL carriers consolidate shipments of less than 10,000 pounds from different customers and transport them as one load.) The new agreement contains important conces-

Kenneth G. Younger, president and chief executive officer of Carolina Freight Carriers, says his company is committed to serving the customer,

and that has enabled it to grow from the 19th largest carrier to eighth place in six years.



PHOTO: BANCY & PERCE

sions on work rules. Wage increases totaling 50 cents an hour over three years, with no cost of living hikes, are far more reasonable than pay settlements negotiated in prederegulation contracts.

For their part, the Teamsters got the job protection they wanted by prohibiting carrier holding companies from establishing separate, non-union divisions. However, existing operations were exempted, and nearly all LTL carriers have already started subsidiaries to handle truckload freight. These low-overhead, non-union operations were separated from the high-cost LTL portion of the business to allow them to compete more effectively with the many new entrants in the truckload field.

The American Trucking Associations, the industry's national trade organization, has led a successful drive to gain passage of the Tandem Truck Safety Act. The law allows unlimited highway access to "pup" trailers that are usually pulled in tandem, instead of restricting them to the Interstate and primary highway system.

Settlement of the access issue for twin trailers had an immediate and salutary effect on trailer manufacturers. Many carriers had been waiting to see how the issue would be resolved before making purchases of the more productive units. When the act was passed, orders flooded in. Last year 234,000 trailers were sold, making it the best sales year in trailer manufacturing history. Aluminum Corporation of America projects a build rate of 170,000 units in 1985 and anticipates continued strong sales for the rest of the decade.

LTL carriers traditionally get the most benefits from shorter, twin trailers because one trailer can be dropped, hooked onto another tractor, and used for freight pickup and delivery in congested urban areas. Truckload carriers, on the other hand, derive the greatest benefit from high-cube-foot-capacity (high-cube, they are called in the industry), 48-foot by 102-inch units, which compete effectively with railroad piggyback service. More than half of the trailers sold last year were of this configuration—a buying trend spurred by the demands of truckload shippers who

SPECIAL REPORT

Trucking Turns A Corner

frequently pay a flat truckload rate whether the trailer is a 45-foot van or the new, high-cube model. The 17 percent gain in capacity provided by a bigger trailer means the shipper can move more freight at no extra cost.

"Shippers are now demanding the 48 by 102s, even if they don't always need them," says Neil Whitman, marketing director for the Strick Companies, Fairless Hills, Pa.-based makers and lessors of trailers. "They are insisting that the carriers make this equipment available."

Whitman thinks twins, or doubles, will continue to gain in popularity among all types of carriers.

The reason, he says, is the savings a twin-trailer combination can achieve. "Not only do doubles offer significantly more cube," he explains, "they also reduce freight handling, increase the flexibility of operations, are more maneuverable and make it easier to meet axle weight limits. What's more, doubles could improve safety by reducing the total number of trucks on the road."

With the economic recovery, truck tractor sales also experienced a healthy rebound. Industrywide, sales of the largest trucks—those with a gross vehicle weight of 33,000 pounds or more (Class 8)—were up nearly 68 percent last year over 1983. And first-half sales for 1985 came in at 77,000, compared with 65,000 for the first half of 1984. Though industry experts predict a softening of sales in the second half, total 1985 volume is expected to approximate the 1984 figure of 138,000.

Thage Berggren, president of Volvo White Truck Corporation, in Greensboro, N.C., says the tremendous recovery in Class 8 sales last year marked the return to a "more normal market situation" after the severely depressed 1981-82 period. "It will still be years before the aftermath of deregulation is completely over," he said.

John B. Curcio, CEO of Mack Trucks, Allentown, Pa., agrees. "This is a mature market," Curcio says. "We will never again see the level of truck sales we had in 1977-79. In the future what we will have is a normal replacement market of 125,000 to 130,000 trucks per year."

A growing percentage of these sales is being made to truck leasing companies. International Research Development projects that by 1992 over half of all Class 8 trucks on the road will be leased instead of owned. Leasing is par-

The market for heavy trucks has matured. The president of Mack Trucks says that the industry will never see the sales levels of 1977-79 again, but will have a normal

replacement market of 125,000 to 130,000 trucks a year. A growing percentage of sales will be made to leasing companies.



PHOTO: LOU JONES—UNIPHOTO

ticularly attractive to private fleets, which frequently do not have extensive maintenance and shop facilities. The Private Truck Council of America reports 70 percent of its members leased equipment in 1984, up 5 percent from the previous year. Private trucks make up two thirds of the nation's commercial truck population.

The widely accepted estimate of a 130,000-truck replacement market points to potential trouble for some manufacturers. Current manufacturing capacity could produce 230,000 Class 8 trucks per year. That alone would mean stiff competition, but imports are also increasing. Just this year, Saab-Scania, Hino, Nissan Diesel, Isuzu and Mitsubishi have all jumped into the U.S. medium and heavy truck market.

In contrast to U.S. makes, which contain components from a wide variety of manufacturers, most imports are fully integrated, standardized trucks. This will help keep prices down, but some manufacturers doubt American buyers are ready to give up the right to make component specifications. Others question the availability of sufficient service and support for the new imports.

"It will be very difficult for the Japanese and others to reach the level of competency that we have in place in parts and service," Curcio says. "But I certainly don't underestimate them."

There is universal agreement among manufacturers that increased competition will mean greater emphasis on customer service and product differentiation.

These two factors are Mack's stron-

gest suit, Curcio says. "When you look at all the operating and maintenance costs associated with a heavy truck over an average five-year life," he notes, "the initial purchase price [approximately \$75,000] represents only about 15 percent. If we can reduce the remaining 85 percent by offering a product that is more fuel-efficient, easier to maintain and more durable, then the importance of the initial price becomes less. This is where we intend to concentrate our efforts."

International Harvester has a similar program "designed to provide the user with equipment that costs less to operate over the life of the vehicle."

IH also offers customers an exclusive computer program, called FOCUS, which accurately anticipates operating costs and projects a buyer's future truck needs. Another IH computer program enables truck users to determine which major truck components will provide the best combination of fuel efficiency and reliable performance.

John D. Rock, manager of the GMC Truck & Coach Operation in GMC's Truck and Bus Group, says his company will concentrate on electronic componentry as a way to differentiate product and offer a better equipment buy. "We will be in the forefront of innovations," he says. "We are already offering on-board computers that tell us how to route trucks, how to stack the load and when to take a truck in for regular maintenance."

Rock says current experimentation in the high technology field will result in other innovations being incorporated

The Fast-Moving Light Truck Market

into new trucks, "probably with the 1988-89 model years." Additional costs associated with electronic devices, he says, will likely be recovered in six months to a year as a result of increased vehicle operating efficiency.

One device with both fuel and safety benefits is an electronic engine governor that forces the driver to stay within a certain speed limit. The result is improved fuel mileage, reduced maintenance and fewer accidents. Electronics will usher in a whole era of driver management, Rock says.

"We can put a black box in a truck that will tell a driver when to change gears and will keep a retrievable record that lets the company know whether the shifts are properly made," he says. "By helping the driver operate the vehicle as it should be operated, we believe a 20-25 percent efficiency gain is possible."

A dark cloud on the equipment horizon is a clean air standard for heavy trucks issued by the Environmental Protection Agency. Emissions levels set for 1991 and 1994 will require "particulate trap" technology that has not yet been developed. "Anytime we have to develop new technology, there is a diminished return on cost versus benefits until it is refined," Rock says. Curcio sees "no way" the new standard can be met "while still maintaining the efficiency and durability we have in today's engines."

American Trucking Associations is also concerned about the effect the standard will have on truck efficiency and price. It is working in Congress to obtain some relief from the regulation and from a Department of Transportation rule requiring installation of wheel skirts and mud flaps on new and existing vehicles.

ATA Chairman S. Earl Dove, of AAA Cooper Transportation, Dothan, Ala., acknowledges that the industry has problems to overcome. "However," he says, "we are working on them in an aggressive way and with an almost unprecedented spirit of cooperation. The trucking industry is not just 35,000 independent carriers. It is a national industry that provides a service vital to the economic well-being of this country. When we approach our common problems and goals from that perspective, I think we've already got them half licked!" ■

An estimated 400,000 Americans are trading in automobiles for new light-duty trucks or vans this year, continuing a five-year trend that has made light trucks the most dynamic segment of the motor vehicle market.

John D. Rock, manager of the GMC Truck & Coach Operation, reports that roughly 3 of 10 new vehicles sold in the United States today are trucks, the highest truck-to-passenger car sales rate in history.

Paced by light-duty truck popularity, truck sales last year exceeded 4.1 million units, an all-time record. Rock projects the 1985 figure at 4.3 million, with 93 percent in the light truck segment.

The Motor Vehicle Manufacturers Association also projects a good year in its quarterly report, "The Motor Vehicle's Role in the U.S. Economy." The association puts truck retail sales in the second quarter of 1985 at an annualized pace approaching 4.5 million—10 percent above the same quarter of 1984. Light trucks sold at an annualized rate of 3.4 million units, 7 percent above the equivalent quarter of 1984.

Light pickups and vans are particularly good products from the manufacturers' standpoint because they use automobile componentry, allowing tooling costs to be amortized across a broad passenger car base. This also makes many of them excellent consumer buys; sticker prices are competitive with autos.

Other reasons for their popularity with consumers: economical four- and six-cylinder engines, a short wheelbase for easy turning, better visibility and comfort, four-wheel drive, durability and constancy of style.

Ralph Kramer, public relations director for General Motors' Chevrolet Motor Division, says that in the showroom, "the buyer is looking for a vehicle—car or truck—that fits his needs. That vehicle is increasingly a pickup or van."

Kramer notes that Chevrolet light trucks and vans have set sales records for two years and will likely set another this year.

"We are pulling heavily from the passenger car market," he says. "A lot of these buyers would have gone for a station wagon a few years ago."

Says GMC's Rock: "Manufacturers are now building light trucks with new production technologies. Our GMC Safari vans are a typical example. Although they are built at a Baltimore plant that dates back a half-century, it has been converted to a factory of the

future with unsurpassed computerized high tech processes, including use of robots."

The Safari is a minivan, a vehicle positioned somewhere between a full-size van and a passenger station wagon. There are two Safari models—a "people-mover" seating up to eight and a commercial "cargo-mover" with up to 151 cubic feet of cargo space.

Ford's entry into the minivan market, the Aerostar, seats seven passengers "in luxurious comfort" and has maximum cargo space of 175 cubic feet. In addition to families, Ford expects the Aerostar to be used by small businesses, corporate sales people, utilities, taxi companies and van pools.

Dodge has both full-size vans and minis in its product line, but the Dodge Ram pickup continues to outsell all other models. It was, in fact, Chrysler Corporation's top selling nameplate—autos included—for the 1985 model year. Pat Keegan, general manager of Dodge Truck Operations, says a number of optional packages will be available on the Ram pickup in the 1986 model year, which will "make it easy for the buyer to tailor his or her truck to today's lifestyle."

Keegan explains that "we are seeing pickups used more and more as a second car. Dodge's options for 1986 allow buyers to obtain an interior more like a passenger car's while retaining functional Ram work features."

Isuzu, Mazda, Mitsubishi, Nissan and Toyota have been formidable competitors for U.S. manufacturers in the light truck field.

One reason: There have been restrictions on sales of Japanese autos here, but not on Japanese trucks, so the manufacturers have pushed trucks among their dealers.

The Japanese import share of the light truck market was 17.9 percent in the second quarter of 1985, according to the MHVA. That was 1.6 percentage points above 1984's second quarter penetration of 16.3 percent.

Curt Von Zumwalt, Toyota Motor Sales U.S.A. product news manager, says Toyota is No. 1 in sales of trucks in the half-ton load capacity category. He says many small business people, like plumbers and carpentry contractors, "find they don't need large trucks and turn to ours for cost benefits."

On the other hand, the full-size vans and pickups traditionally used as delivery and service vehicles by a variety of businesses frequently do not provide

SPECIAL REPORT

The Fast-Moving Light Truck Market

Light truck production is on the rise, with sales expected to continue to take a large part of total truck sales.

the flexibility, cargo capacity or durability that many businesses need. Distribution and service companies increasingly are turning to Class 3 to 5 trucks, with carrying capacities from 5,000 to 10,000 pounds. Last year 6,563 of these trucks were sold, a 528 percent increase over 1983.

Iveco Trucks of North America manufactures a full line of diesel-powered trucks in this size range and leads in it. Iveco's Z-Range diesels can be equipped with a wide variety of cargo bodies, making them easily adaptable to any kind of business. In addition, the trucks have a long service life, and their engines, which carry a 100,000-mile warranty, boast an average efficiency of 17 miles per gallon.

Lower operating and maintenance costs result in substantial savings over the vehicles' life, accounting for their growing popularity.

Isuzu Truck of America recently introduced a Class 3 delivery truck that will compete directly with the Iveco line. Isuzu's NPR model, which the company calls "the best truck, in the long run, for the short haul," features a turbocharged diesel engine with a direct injection fuel system. The NPR has one of the roomiest, most comfortable driver compartments of any truck in its



PHOTO: T. MICHAEL KEZA

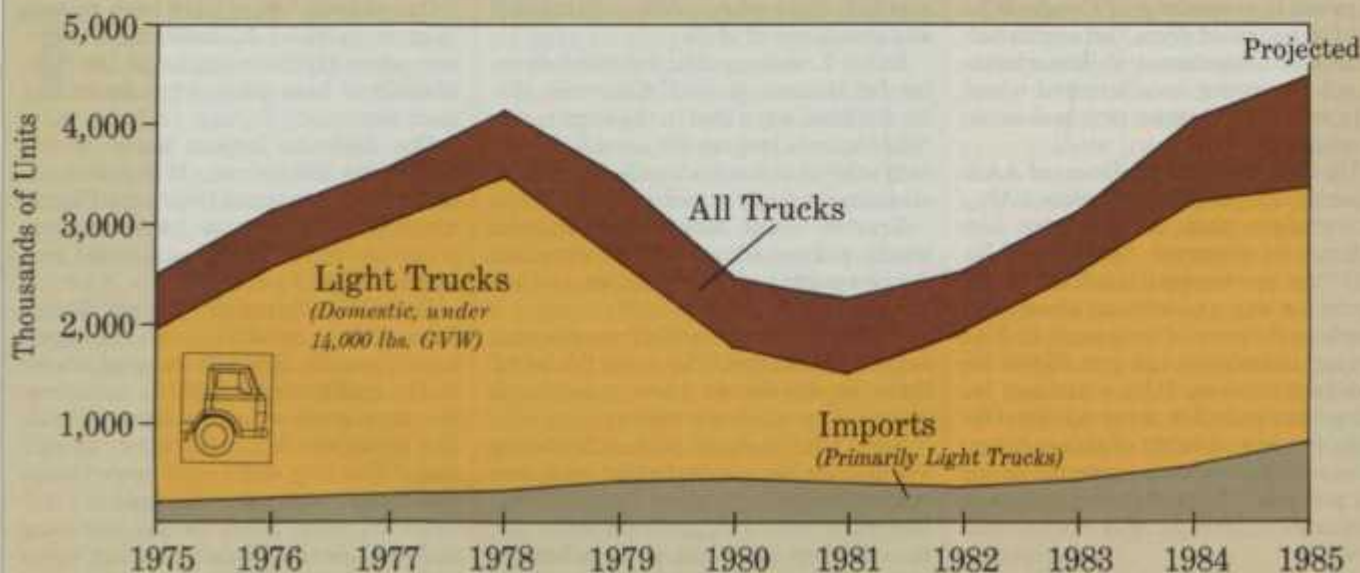
size range and is touted as bringing an end to the "drab cab."

Many large trucking companies use light-duty trucks in various support capacities. A recent *Fleet Owner* magazine survey revealed that light trucks comprise 48 percent of the approximately 4.1 million straight trucks operated by big fleets. Light trucks typical-

ly are assigned to fleet terminal and shop locations. Also, safety departments use them to spot-check the highway performance of company drivers.

Says Rock: "Light trucks are in demand by businesses and by the general public, many of whom now consider their truck or van a necessity. The appeal of these vehicles is universal." ■

Light Truck Sales, 1975-1985



Source: Motor Vehicle Manufacturers Association of the U.S., Inc.

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Reasons To Call Us

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Making It

How They Became Kings Of Coolers

Picture it: sun, sand, surf and a group of young people working up giant, beach-party thirsts.

Michael Crete is acting as bartender. He decides he will become a hero by coming up with a drink that may be more thirst-quenching than cold beer.

Crete mixes citrus juice and chablis in plastic tubs. Become a hero he does. Thirsty friends returning from a volleyball game drain the tubs.

That early 1970s experience at a California beach made Crete more than a popular person at a party. It made him—eventually—a fabulously successful entrepreneur.

It also led to creation of the wine cooler industry, in which company after company has introduced its own brand of low-alcohol (typically about 6 percent) mixtures of fruit juice and white wine. Sales of the sweet, refreshing, lightly carbonated coolers are expected to top \$310 million this year.

The kings of coolers are not the big, diversified companies that have entered the field, but Crete and Stuart Bewley—who like Crete is 32 and hails from the same small California farm town, Lodi. Their California Cooler, Inc., grew from a shoestring operation that produced 1,575 gallons of homemade cooler worth about \$12,000 in 1981 to a high-powered company that sold 22 million gallons—worth more than \$72 million wholesale—last year.

Recently, Brown Forman Corporation, the Kentucky distiller (Jack Daniel's, Early Times, Southern Comfort) bought the company for as much as \$146 million (\$63 million cash plus payments tied to sales, which could add \$83 million over the next three years). Crete and Bewley, who started it with \$10,000, will remain in charge of what essentially will be an autonomous operation.

Back to the 1970s: Crete kept tinkering with his recipe after that beach party, trying it out at social gatherings. One day in 1978, conscious of the consumer trend toward nonalcoholic or light-alcoholic beverages that was

This beverage, whose creation was inspired by a need to quench thirsts at a 1970s beach party, has launched an industry.



PHOTO: RICHARD STEVEN STREET

pushing sales of such products as Perrier or wine instead of hard liquor, he was stirring his umpteenth batch of cooler for a family party. Crete, who was working as a beer distributor at the time, thought: My cooler has commercial potential. The next year, when he was setting up distribution for a winery in Lodi, he began bottling cooler samples, which he dropped off at wine accounts.

Responses were positive. Stores asked for more. (California Cooler, a slightly cloudy, lime-green, proprietary mix of grapefruit, pineapple, lemon and lime juices, plus white wine, fructose and preservatives, may not be everyone's cup of tea. But it has more than 50 percent of the cooler market.)

Crete found it impossible to set up a full-scale business while working as a distributor. Enter Bewley, one of Crete's high school buddies. Bewley,

Entrepreneurial success in beverages, consumer electronics, athletics, automobile recycling and candy.

who had been living and working in Oregon, wanted to start a business in his hometown.

Putting up \$5,000 each, the two entrepreneurs established offices in an abandoned migratory farm laborer's camp called "Hog Hollow."

"That first year, all our business transactions occurred in restaurants," recalls Bewley. "Nobody ever saw Hog Hollow." The camouflage opened doors and gave Crete and Bewley the chance to pick the brains of knowledgeable people.

"Neither of us had ever done anything like this before," says Crete, talking in a conference room at the company's sprawling facilities today in a Stockton, Calif., industrial park. "We had to learn about glass, carbonation, suppliers, everything."

In early 1981, Crete and Bewley launched their business from behind two desks borrowed from their parents. They made samples using a 15-gallon beer keg and a plastic garden hose, bought juices in local supermarkets, squeezed their own grapefruit, bottled their product in beer bottles soaked in water-filled tubs to remove the original labels and distributed their cooler out of the back of Bewley's 1953 pickup truck.

Moving out of "Hog Hollow" after receiving their alcoholic beverage license in August, 1981, Crete and Bewley established operations in a vacant warehouse at Roma Winery in Lodi.

Previous attempts to market pop-wine drinks had always preserved the traditional wine appearance. Crete and Bewley found that inappropriate.

"We were creating something that people wearing T-shirts would drink at a baseball game on a hot afternoon," says Bewley, "not something to be swirled and sipped over lobster in some elegant restaurant."

To project a livelier image, Bewley and Crete chose emerald green, 12.7 ounce bottles, wrapped them at the neck in gold foil, and labeled them with an attractive gold, green and white

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PEOPLE/PERSONAL

Making It

Michael Crete (left) and Stuart Bewley put \$10,000 into their company and in a few years sold it

for tens of millions. They still run it, even though it is now part of another corporation.



PHOTO: RICHARD STEVEN STREET

logo. To make their cooler more competitive with beer and pop, they sold the bottles in four-packs rather than the usual six-pack arrangement, which held the price per pack under \$4.

Bottling remained a primitive operation. Bewley and Crete worked late into the night filling, capping and labeling.

In December, 1981, as demand surpassed production, Crete and Bewley hired an employee, paying him in company stock. (Exactly how much of the millions from the Brown-Forman deal goes to the early temporary employee remains a company secret, though Bewley says the man today is a millionaire. Also in line for a harvest of dollars are company employees who will receive "substantial" though as yet unspecified bonuses in October.)

With production climbing, Crete and Bewley decided to tap the largest possible market by selling their beverage through beer distributors. The distributors worked with retail outlets ranging from family shops to the big chains' supermarkets.

Beer distributors climbed on board the California Cooler bandwagon for obvious reasons. The cooler was packaged like beer, handled like beer, warehoused like beer and required no changes except to carve out a spot in the cold box. Also, distributors liked the profit potential. At a little less than \$1 a

bottle, California Cooler offered a 33 percent wholesale margin—typical for wine products, but far greater than the standard 20-22 percent margin for beer.

It took about a year for California Cooler to blanket California. In 1982, with minimal advertising California Cooler sold 180,000 gallons worth \$1.4 million. In 1983, after the company went into Texas and Arizona, sales zoomed to 5.4 million gallons worth \$26 million wholesale.

Today California Cooler is in every state except Oklahoma. It is marketed through a network of 500 beer wholesalers, and experts predict sales of more than \$100 million in 1985.

The company has attracted a pack of imitators. The largest is Gallo, the Modesto, Calif.-based giant, which introduced its Bartles and Jaymes "premium" cooler with a massive advertising blitz early this year.

With competition heating up, Crete and Bewley moved to protect their position as cooler industry leaders. In October, 1984, they hired the Los Angeles-New York advertising firm of Chiat/Day, Inc., and bankrolled a \$9 million campaign.

Is California Cooler just a passing fad? Says Bewley: "What we've done is carve out a new niche in alcoholic beverages. We're here to stay."

—Richard Steven Street

From Suntan Lotion To Electronics

In the early '70s, when Stuart Rose was attending Emory University, he sold suntan lotion blanket to blanket. He bought the stuff on consignment and lived on the profits.

Today, at 30, he is president of Audio-Video Affiliates, a Dayton, Ohio-based chain of 53 consumer electronics stores. He bought the first four, all in Dayton, in 1980 with \$150,000 in savings and \$3 million in borrowed money. They were grossing about \$10 million. Today Rose's company is nearing \$200 million in yearly sales and growing.

"I always figured," says Rose, "that if I was going to work in a business, it might as well be mine."

So, unlike his younger two brothers and a sister, who have pursued careers in law and medicine, he studied business administration at Emory. Following graduation, he was accepted at the Harvard business school, but he never attended.

He read an article about Victor Niederhofer, a world class squash player who is in the merger and acquisition business.

Rose—a racquetball player himself; he does not like squash—called Niederhofer and soon found himself with a job helping in acquisitions.

"Victor liked me," he recalls. "In 2½ years I put together about 15 deals and became a senior vice president by age 24."

Then, having saved \$150,000, he invested in the four Dayton stores, which he had found out about in his acquisitions work.

He set out to build what he intends to be a cross-country empire of discount stores specializing in consumer electronic products.

His formula is simple: Purchase stores only in smaller cities and towns where the local competition does not have the buying power to compete with him on price. In Dayton, for example, Rose's four stores boast 45 percent of the market.

His 53 stores, using the names of Rex, TV & Stereo Town and Kelly & Cohen, will eventually grow to 3,000 if Rose has his way. "This is still an infant business," he says. "There are over 3,000 smaller cities open to us. That's our niche."

Rose is able to outadvertise locally

owned stores, running eight- to 10-page newspaper ads against what typically are quarter pages by other stores.

He sees another advantage in focusing on smaller communities. Many of the trendy products first hit the metropolitan areas, where they often fail. "By watching these experiences, we are able to avoid costly marketing mistakes," Rose says.

Rose has shunned the home computer or video game markets.

"I would have been tempted by home computers," he admits. "But when you put the pencil to it, and you see the prices coming down and the few suppliers available, it's obvious there's no way to make money."

Thus, Audio-Video Affiliates has stayed with such products as video cassette recorders, VCR cameras, television sets, car stereos and microwave ovens. And Rose does not expect to change.

"If we start diluting our efforts, someone might get to those 3,000 markets first," he explains.

Within the next six months, Rose plans to open 20 stores. He attends every opening to make sure it runs smoothly. "That first impression is very important," he says.

Audio-Video Affiliates has 600 employees, with 200 working at the Dayton headquarters. Delegating work to others has been one of the most difficult changes for Rose as his company has grown.

"You feel that no one does it as well

This couple at an Audio-Video Affiliates store is being helped by the company's president himself, Stuart

Rose hopes to build a retail empire in smaller American cities.



PHOTO: GARYSON JONES

as you, but it still has to be done," he says.

He has taken his company public—the stock has split three for two—and says the fact that outsiders have invested more than \$50 million in his business is a heavy burden.

"I'm under the gun more than ever to produce," he says.

Rose, who is single and pursues a modest lifestyle—he lives in a condominium in Dayton that he bought for \$40,000 five years ago and "is probably worth \$35,000 today"—still likes to go to the beach on vacation. He likes to windsurf and lie in the sun. "I don't sell suntan oil any more," he says.

—Bob Gatty

Putting A Foot In It

John Stalberger, Jr., went to visit friends in Portland, Ore., in 1972 during a spring break from college in his home state of Texas. He had no idea the visit was going to change his life.

He ran into Mike Marshall, another college student who like him was a sports enthusiast. They became good friends. Marshall used to bounce a bean bag back and forth with his knees to help in recuperation from a leg injury.

That was the beginning of footbag, a game familiar today to millions.

Stalberger—who wound up staying in Oregon and going to college in Portland—and Marshall spent a lot of spare time trying to create a sport. They ex-

perimented with playing techniques, bouncing a ball back and forth with their feet, knees and legs, and with a variety of balls that could stand up to the punishment. Finally, they settled on one covered with cowhide and filled with plastic pellets.

By this time the goal was not only to create a sport, but a business, too. It was not to be a partnership. Marshall died unexpectedly of a heart attack.

Stalberger, working in construction after leaving school, applied for a patent for the ball, which he called Hacky Sack, derived from an expression he and Marshall had used—they would go out and "hack the sack."

By 1976 he had developed footbag as it is known today—a game in which two-player teams compete on an 11-by-22-foot court split by a net. (Rules are similar to volleyball's, but players use only their feet.)

Stalberger quit his construction job then and spent as much as 16 hours a day promoting footbag.

He would drop in at Oregon and Washington sporting goods stores and ask owners to give Hacky Sacks a try. "I used to tell the owner, 'Carry them only if they sell,'" he says.

Then he would go to schools and put on fast footwork demonstrations. Stalberger would give a few Hacky Sacks

Making It

away, and students would ask where they could be bought. "I would just tell them to go to the local sporting goods store," he says.

A few days after a school demonstration, Stalberger would check on sales. "The owner would be flabbergasted at how fast the Hacky Sacks moved and order more," he says.

Big profits, however, were slow in coming. Most of the money went into making more Hacky Sacks and financing new sales exhibitions. There was no big money to promote the game.

The game gained momentum, though, when school coaches and physical education directors began using it in training programs.

By 1983, an estimated 1 million Hacky Sacks had been sold, and Los Angeles-based Wham-O, manufacturer of the Frisbee and other fad sports items, bought the U.S. and Canadian marketing rights for a reported \$1.5 million. Other manufacturers make other varieties of balls used in footbag.

Stalberger, 34, still makes Hacky Sacks. He formed his own company, Kennecorp Sports, based in Vancouver, Wash. He estimates 400,000 sacks have been sold overseas since 1983.

He says the biggest factor in his success has been perseverance. "You don't get educated for free," he says.

—Dennis Blank

John Stalberger created a sport and a business. Footbag is played with a ball like the one in his left hand. The larger one is a promotion item.



PHOTO: MAX GUTERREZ

Recycling Status Symbols

Peter Fuller (left) and David Leggett "rebuild or save what's valuable and replace what's no longer valuable."



PHOTO: A.B. BAUMBACH

Automotive Import Recycling, of Allentown, Pa., markets a can't-miss concept for the 1980s: status symbols at bargain prices.

Known as AIR Automotive, the company sells remanufactured BMWs and Volvos for \$8,000 to \$12,000. It takes worn-out models and, after five weeks of probing, stripping, replacing and polishing, produces smooth-running foreign cars for half the price of new models.

"The whole idea of remanufacturing is to rebuild or save what's valuable and replace what's no longer valuable," says Peter Fuller, chairman and chief executive officer.

Two thirds of the customers get overhauls for cars they already own, a job usually costing \$6,500 to \$14,000, depending on model and condition. The rest buy cars AIR Automotive acquired and fixed.

Last year the company refurbished 170 cars, a figure President David Leggett thinks will rise to 300 "if we really get cracking." He says sales—\$1.3 million in 1984—should total \$2.3 million this year.

Leggett, 29, got his start in a Red Bank, N.J., garage and worked his way through college in Florida as a disassembler in a salvage yard and as a mechanic. Remanufacturing combined his interests in cars and the environment.

Remanufactured cars would keep running rather than wind up junked and need less energy to produce. Leggett made pitches for funding "to anybody who would listen," but investors shied away from his high-labor, low-margin proposal.

A chance meeting provided seed money. In 1978 Peter Fuller, then an Allentown community organizer, pulled a cranky BMW into Leggett's garage in Pleasant Valley, Pa. Leggett recalls, "His engine sounded like a thresher. It was about to put a rod through the engine block. I told him he wasn't driving out in his car." After becoming friends they started AIR Automotive in May, 1979, with \$500,000 Fuller inherited from a family business. Fuller, 35, says, "I love the idea of being an entrepreneur."

The entrepreneur, as Fuller sees him, "backs an idea by taking the highest risks. He is not just a passive investor."

Fuller oversaw marketing and fundraising, while Leggett ran garages and honed his idea. He fixed up 10 cars for a 1980 market test, then announced a sale in a 2-by-3-inch ad in an Allentown newspaper. "We sold out with that ad and took orders for another month's worth of business," says Leggett. "I was on top of the world."

Leggett ran AIR Automotive as an R&D company, revising its techniques

Making It

through trial and error, as parts and service departments produced an income flow. At first workers followed an 18-page, handwritten outline of 200 points to check. That has expanded to 64 pages and 900 lines of information. "We can accurately detail what's been processed, saved and replaced," says Leggett.

A quarter of the selling price goes for new materials, the rest to labor and overhead. AIR Automotive works mostly on 1974-78 vintage BMWs and Volvos, brands chosen for their quality, performance and serviceability. All exterior parts are stripped off, and the interior is gutted. Parts are tagged and logged in a car book listing the work needed. Brakes, engine and suspension are overhauled, and new parts replace worn-out ones.

Steam cleaning and sandblasting remove rust, and rustproofing material goes inside all panels. There is a 12-month, 12,000-mile warranty that covers all of the work.

While sales burgeon, Volvo owners Leggett and Fuller struggle to control costs and effectively manage a staff of 50 and what Leggett calls "an unbelievably complicated process, with 1,200 to 1,500 line items on each car."

Last December the company moved to the 30,000-square-foot former Chevrolet dealership it occupies in Allentown from 6,000 square feet of space in Belvidere, N.J.

Leggett and Fuller have switched jobs, so former auto novice Fuller runs the shops while Leggett oversees marketing. The marketing thrust has changed, too, as American cars more closely match European models in design and performance. "You can now get American cars for \$9,000 with European features," Leggett says. Rather than stress a performance edge over domestic cars, AIR Automotive highlights the price of its cars versus new BMWs and Volvos costing \$16,000 to \$25,000.

Mercedes-Benz models may join the line in the future. And the partners say they may form partnerships with other business people in other areas—Atlanta and Los Angeles are mentioned—thereby expanding operations beyond the Northeast.

In the meantime, the learning goes on.

Says Fuller: "I've come to appreciate cars. They're performance machines, not just boxes to get in and drive down the street."

—Van Wallach

Sweet Sell Of Success

For George Terzis, 67, success is sweets. And many teen-age hospital volunteers are sweet on him. His Candy Strippers Candy Company, of Santa Ana, Calif., provided money for 53 scholarships last year for volunteers who want to pursue health care careers. This year the number will double.

After his wife's death in 1980, Terzis—who had been a successful snack and soda machine vendor in Pittsburgh—moved to California to be closer to other members of his family.

Terzis' two nieces were volunteer Candy Strippers at a hospital—like many teen-agers in red and white striped uniforms who spend after-school hours helping nurses. Terzis was inspired by their dedication and wanted to reward teen volunteers for their hard work.

He thought if he could package a product around the name "Candy Strippers," he would have a market to start with in hospitals. But when he set out to obtain a trademark his lawyer scoffed.

"That name's been around for a long time. I think you're barking up the wrong tree," the lawyer said. But Ter-

George Terzis has some unusual sales strategies for his candy company. He also has an unusual scholarship program for teen-agers.

zis reminded him that sometimes the obvious is overlooked. Sure enough, the name had never been trademarked. Terzis quickly claimed it in 1981.

For the next 2½ years Terzis (chairman and CEO), his son Chris (president) and his brother Gus (in charge of shipping) used \$200,000 in seed money to plan the business.

By 1984, Candy Strippers Candy Company was selling products like candy-filled baby bottles bearing "It's a boy/It's a girl" labels to hospital gift shops and florists. Also that year, Terzis established the National Teen-Age Hospital Volunteer Scholarship Fund, administered by the American Hospital Association.

Terzis also donates scholarships to community-minded corporations that buy from Candy Strippers. The corporations create good publicity by giving the scholarships to teen volunteers at hospitals of their choice. Terzis provides plaques and gold pendants imprinted with his company's logo for the winners.

Candy Strippers' gourmet chocolates, fruit-flavored lollipops and its 31 other products are now sold in more than 3,700 hospital gift shops, 3,000 florists and 3,000 Hiltons, Sheratons, Holiday Inns and Marriotts nationwide.

Terzis says his real secret to success is encouraging his 40 employees. He gives daily cash motivators to the top selling employees in his telemarketing department.

All the salespeople—Terzis calls them telereps—have their own computers so they can keep track of inventory while on the phone.

Candy Strippers' customers are never bothered by salespeople making personal visits. Instead, Terzis sends prospective customers a box of candy and some information on his company. After 12 days, one of Terzis' 20 salespeople calls the customer.

Terzis' strategies work. Last year the company generated \$800,000 in sales. Terzis predicts sales will exceed \$3 million for 1985.

And, he says, "We believe we're doing a lot of good by establishing scholarships. Some of the teen-agers who receive our scholarships may become great doctors and nurses."

—Nancy L. Croft



PHOTO: T. MICHAEL KEES

The Other Side Of The Coins

By Ray Brady

Every so often, you may get one in the mail: a lavishly illustrated brochure in four colors, containing pictures of shiny, mint-bright coins and claims that the investment outlook for coins is as bright as the metal in them.

Coin enthusiasts point to yearly studies by Salomon Brothers, the investment house, of how various types of investments, including collectibles, have fared. Time and again, by Salomon Brothers' calculations, coins have outperformed investments ranging from stocks to Chinese ceramics and from gold to old masters.

Also, say the coin enthusiasts, look at price increases like these:

- From 1954 to 1984, the 1875 CC 20-cent piece rose from \$20 to \$7,500.
- The 1893 CC Morgan dollar jumped from \$65 to \$4,000.
- And in Minneapolis this past spring, a bronze 1943 Lincoln penny changed hands at auction for \$20,350. Only about a dozen of these World War II coins are known to exist.

As glittering as such increases may seem, the collector should bear in mind that the world of coins currently is standing on edge. Coins that have long been price leaders could drop sharply in value, and others could rise.

Some dealers frankly concede that the outlook for coin collecting (and investing) may be grim.

The reason is a word that strikes terror into the hearts of coin collectors everywhere—"melt."

Remember when Nelson Bunker Hunt was buying every scrap of silver he could lay his hands on, and silver bullion soared to an all-time high of \$50 an ounce? Covering the story, I watched Americans bring into New York coin stores bags of silver plate, knives and forks and—here is the heart of the matter—silver coins.

Americans turned in many common coins, but at \$50 an ounce (vs. a price now of around \$6 an ounce) it also made business sense to turn in a lot of coin collections, as well; they were simply worth more as raw metal melted down. A prominent New York dealer, Joel Coen, believes that he alone sold \$400

Collectors must be wary of fakes. Here, a magnet is used to test for the 1943 bronze penny; if the magnet picks up the coin, it is not bronze.



PHOTO: WAYNE SOURCE

million worth of fabricated coins to metal refiners over a one-year period.

"One day I melted 100 bags of 1963 Franklin halves," says Coen. "I must have gotten about \$14 for each coin and today the most they bring is maybe six bucks."

Shouldn't that giant meltdown make the remaining coins even more valuable? After all, it is the old law of supply and demand—as the supply goes down, the price goes up.

The trouble is, the meltdown may have choked off a lot of the demand for coins. Reason: Many coin collectors start as kids, buying low-priced items (Joel Coen himself became interested when his parents gave him a book containing slots to be filled with coins). As they grow up, those kids turn into serious collectors, buying high-priced items and keeping the market going.

But, say dealers, the meltdown de-

The great silver meltdown may have repealed the law of supply and demand—at least in coin collecting.

stroyed a lot of "starter" coins, as they're known in the trade, making collecting less attractive. Leon Hendrickson, a major dealer, points to Humpty-Dumpty, who could not be put back together by all the king's horses and all the king's men, and says: "That's the way it is with the coin market, too."

Before the melt, Roosevelt dimes—the 1949-S and the 1955-P, D and S—were considered scarce. So they escaped the furnaces. Now, though, because so many other coins were melted, these varieties rank with the commonest coins in the series.

As an investment, coin collecting carries many risks. Things like hairline scratches, abrasions and details of how precisely a coin was struck can make a big difference in value.

Even worse, fakes abound. That bronze 1943 Lincoln cent is a classic example of a coin that has often been counterfeited. If you think you have one, incidentally, test it with a magnet. If the magnet attracts the coin, you have one of the fakes.

Adding to the risks are high-pressure promoters. Some, says Joel Coen, "are selling coins at unbelievable prices. One man came in with coins he had bought for \$20,000, and I said to him: 'I can offer you exactly \$3,500 for those coins, and I'm being generous.'"

Coen's clincher, if you get one of those brochures that promise lavish rewards: "Listen, if I had a coin that would double in value in 3½ years, I wouldn't sell it to you—I'd keep it."

The big meltdown has complicated the problem of figuring a coin's worth, say many dealers, because it is hard to know just how many coins are still in collectors' hands. By some estimates, the melt wiped out 98 percent of all U.S. silver coins in existence.

If the coin market snaps out of its current slump, some coins may shoot up in value. ("I have a \$10 gold piece that used to sell for \$1,200," says one dealer. "You can have it today for \$500.") However, there may be more of others around than anyone knows.

All this means that now, more than ever, is a time for the investor to follow that old warning of *caveat emptor*—buyer beware. It is a Latin expression undoubtedly coined around the time the Romans first set up a mint. ■

Ray Brady is the business correspondent for CBS News.



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For Your Tax File

By Gerald W. Padwe, C.P.A.

Diaries: The Bar This Time

Back in 1982, Congress said that all employees of "large" restaurants and bars who earn \$20 or more a month in tips must report all of them to their employers for tax withholding purposes. The IRS now says these employees must record their tips daily or have other evidence of the tip income that is as credible.

The IRS even offers a daily record form if the employee wants to use it: Form 4070A. Credit card slips and restaurant bills showing the amount a customer paid as a tip are sufficient evidence, but the clear standard is a diary. These records must be kept for all tips received after Sept. 30, 1985.

What if the employee fails to keep records or report sufficient tips to the employer?

Withholding must be based on an allocation of at least 8 percent of the employer's gross receipts as tip income. On appeal to the IRS, the withholding may be reduced to something more in line with tipping in a particular establishment, but not below 2 percent.

Second Chance Deadline

The July column alerted you to an August 23 deadline for deciding whether or not to make a tax election to treat the purchase of a new subsidiary's stock, after Sept. 1, 1982, as if you had purchased the company's assets instead. The IRS has now extended that deadline to Dec. 31, 1985, providing a rare second chance to have the benefit of hindsight before making an irrevocable tax decision.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.

Be Late And Be Sorry

Overpaying your taxes does not give you a free ride for filing your return late. Some taxpayers, when they believe they have overpaid through withholding or estimated tax payments, are not diligent about getting their returns in on time. They assume that because the government owes them, they are not subject to the normal penalty for late filing. But the Internal Revenue Service has a surprise up its sleeve.

A recent IRS private letter ruling points out that a taxpayer who, without reasonable cause, fails to file a timely tax return can be subject not only to

the late filing penalty but also to a negligence penalty, equal to 5 percent of the underpayment of tax. Under the regulations, the term "underpayment" means the total amount of deficiencies if a return is filed on time. If the return is late, however, the full amount of the tax shown on the return is treated as the amount of underpayment.

For example, if a taxpayer has paid \$15,000 as estimated tax payments, filed a late return showing a tax liability of \$10,000 and requested that \$5,000 be refunded, the IRS will treat \$10,000 as the underpayment.

Credit Where It's Due

Two recent cases, one in the U.S. Tax Court and one in the U.S. Court of Claims, have held that the costs of producing TV variety or game shows qualify for investment tax credit. These

Recent court decisions allow investment tax credits for TV variety shows and game shows like "The Joker Is Wild."

holdings are directly contrary to IRS regulations that specifically state that such shows are not entitled to the credit. The IRS has already filed an appeal in the Tax Court decision involving "To Tell the Truth." The Claims Court decision involving "The New Bill Cosby Show" and "The Joker is Wild" probably will also be appealed.



PHOTO: SHOOTING STAR

Tax Bytes

The Tax Reform Act of 1984 directed the Internal Revenue Service to look into the feasibility of electronic filing of individual tax returns. The IRS has announced a pilot project in which selected preparers will be permitted to transmit 1985 individual tax returns to the IRS.

The project is at present limited to Cincinnati, Phoenix and Raleigh-Durham, N.C.

A Death In The Office

By Gary M. Kaplan

Business runs smoother when you help employees cope with the loss of a colleague.

When an employee dies, it is imperative that you help your staff deal with the loss and grief—but also keep the business running smoothly. Strength and sensitivity, say managers who have gone through the situation, are essential. So, too, is flexibility.

Andy K., manager of the data processing department at a California insurance company, learned on a Saturday afternoon that his assistant for the last several years had been killed in a car accident. By late Sunday evening, Andy had informed his superiors and everyone in his department.

"With just a few exceptions, I told people face to face," recalls Andy. "My being there, I feel, softened the blow."

Darrell G., a vice president of a Midwestern telecommunications company, watched helplessly as an associate and friend suffered a stroke while the two were walking to a meeting. Within a few hours, his friend was dead.

"While reeling under my own shock, I knew that business had to proceed and that I could be a stabilizing influence on others in the office," says Darrell. "It would be an emotionally charged atmosphere, and I'd have to be prepared for all forms of grief."

Like most of us, these managers were not prepared to handle the deaths of co-workers. They not only had to come to grips with their own emotions, but, as managers, they had to deal with the varying reactions of their staffs and get their businesses back on track.

Death in our society is veiled in a "conspiracy of silence," says Alexis Jay Stein, executive director of To Life, a nonprofit grief and loss education group based in Charlotte, N.C. "We shun talking about death, primarily because of fear, and consequently are ill-equipped to deal with the subject."

But deal with it we must—at home and on the job. There isn't a manager or executive who will not be confronted eventually with death in the workplace. Most often, Stein says, you are on your own in getting your staff through the grief process. Standard company policies cover sending flowers, but offer little else in the way of moral support.

Sooner or later, every manager will have to deal with getting co-workers through the grief process.



PHOTO: T. MICHAEL KEZA

You are left to deal with the more sensitive aspects of an employee's death.

Stein recommends a public acknowledgement of the death by the company or office—perhaps a brief memorial service, giving the staff an opportunity to collectively acknowledge their co-worker's death. "The service may take the form of a lecture on a subject that was important to the deceased," says Stein. "Or, if space permits, the company might establish a small memorial garden in his honor."

He suggests that employees be encouraged to reach out to the family of the deceased. They should be given time off to attend the funeral and, if desired, visit the family at home.

"My assistant wasn't just a cog in a large machine," says Andy. "He was a human being who, in some way, affected each of us. By being at his funeral and spending time with his family, we recognized that."

Informing co-workers about a colleague's death must be handled with great tact, say managers. "Since my assistant died on a Saturday, I contacted nearly everyone in their homes," Andy says. "I broke the news to each in as intimate a way as possible, in their den or living room, with only their spouse at their side."

"When you inform people," agrees Darrell, "it must be done privately. I

brought each person into my office, where there would be no distractions, and they could be as emotional as they required, without being seen by their co-workers."

Time is needed to share feelings. "A few days after our co-worker died, my staff and I spent nearly an entire morning talking about our feelings," reports Andy. "We were able to share many wonderful memories of our friend, which bolstered all our spirits."

People's response to death varies widely, of course, and you as a manager must contend with every reaction. Sometimes, extra special care is required. One of Andy's staff had a particularly difficult time adjusting, so much so that she frequently couldn't come to work. "But with lots of heart-to-heart talks between us, she gradually worked through her grief and resumed her work," he says.

A company's willingness to help an employee through the grief process, both Andy and Darrell point out, depends on that employee's value to the company and length of service.

Death outside of the work force can also affect productivity, Stein points out. An employee who loses a spouse, child, other relative or close friend will likely have up and down days for a while, and periodic depressions centering around the deceased's birthday, holidays and anniversaries.

You must be patient and compassionate. Says Stein: "I heard one manager confront an employee who was having a down period following her husband's death by saying, 'When are you going to get over it? It's been a year already.' We have to remember a year is only one birthday and one anniversary."

While being strong, sensitive and flexible with your staff, don't neglect yourself. "There were times during the first few weeks that I felt overwhelmed," admits Andy. "So I got out of the office and took a relaxing walk. I'd come back refreshed and better able to cope."

Says Alexis Stein: "We live in an angry, lonely society. We've cut ourselves off from family and from our feelings. To enable our wounds to heal, we must not cosmetically hide them with silence. We should cleanse them with caring and compassion." ■

Gary M. Kaplan is a San Francisco free-lance writer.

Franchising

By Ripley Hotch

His fresh-scrubbed, slightly rounded choirboy appearance belies Henry Harper's get-it-done-yesterday delivery, his eagerness to tell his listeners *everything* about MedStop—his system of franchised medical clinics—as fast as he can.

Statistics pour out as he describes how an attempt to make money to help with his father's medical bills grew into something far more.

Harper, 39, says he has always been an entrepreneur. He started a snow cone business in his native Houston—selling the cones directly to customers out of jerry-rigged three-wheel scooters—when he was in high school. He made \$50-75 a day and saved it all for college.

"I didn't know if I wanted to go into law, business or medicine," Harper says. He took minors in chemistry, biology, music and business, and then settled on medical school. After graduation and an internship, he accepted a surgery fellowship at the University of Iowa. Midway through the fellowship, his father had a stroke.

Harper believes in family, and with little sisters in school and his father suffering complications from the stroke, he had to take a leave of absence to go back to Houston.

He had already built up a thriving emergency room business in Iowa. He had moonlighted nights and weekends—a common practice. But when hospitals started using full-time physicians to staff emergency rooms, Harper did not simply fade away.

"I got an attorney, and I said I'll just sign up some full-timers and then interns from the University of Iowa for nights and weekends," he says. "I signed the first contract in Waterloo and built a \$50,000 profit into it."

When he went back to Houston in 1974, he decided to start the same business there:

"We started in one emergency room, six weeks later started in another hospital and six weeks after that started with another emergency room. Nine months into the year, we had six emergency rooms." There was no going back to Iowa.

And Harper was thinking ahead. He was sure that big changes were coming in the way medicine was delivered.

Henry Harper (center) at the Houston MedStop, one of his walk-in clinics. Harper is the first to franchise in the booming field of convenience clinics.



PHOTO: DAN FORD CONNOLLY—GAMMA LIAISON

"I saw that basically 80 percent of patients came to emergency rooms for after-hours care, 15 percent were there for urgent care, and 1 to 2 percent were in true life-threatening emergencies." He compared figures from the 1950s to the late '70s and found that though the population had increased 25 percent, there had been a 900 percent increase in emergency room visits.

"I said to myself, we don't have a civil war going on here, and there's not rioting in the streets," says Harper. Patient surveys confirmed his suspicion: Patients were interested in convenience.

In the classic entrepreneurial manner, Harper decided there had to be a better way than the long waits and high cost of emergency rooms.

He set out to "McDonaldize" the delivery of ambulatory care with a series of standardized, convenient clinics in Houston. He was among the first to do so—in 1975 there were about 100 free-standing emergency clinics (now known as ambulatory care or convenience clinics) in the country. Today, according to

a recent study by the New York consulting firm of Frost and Sullivan, there are more than 2,000. The study says there will be 5,400 by 1990, creating a market of more than \$10 billion in patient fees.

The difference between Harper and others opening clinics is that he did not think in terms of single clinics, or even a small chain restricted to one city. He thought immediately of nationwide franchising.

"We approached it like McDonald's," says Harper, "standardized facilities, standardized monitoring of care, standardized logo."

But one other piece had to fall into place. Hospitals had to have a reason to want franchised clinics either for themselves or as suppliers of patients to them. At the time, they made money by keeping patients in the hospital, ordering tests, and generally increasing the amount and length of treatment. Medicare, Medicaid and private insurers simply picked up the ever-increasing costs of what Harper saw as an essentially inefficient system.

"It was a cost-plus system where

**Henry Harper's MedStop franchise
"McDonaldizes" health care:
standardized facilities, standardized
monitoring of care, standardized logo.**

there was no incentive to cut costs," he says. But he was sure it would not last, and he began to prepare for the change by creating Medical Networks, Inc., and setting up six MedStop ambulatory care clinics in Dallas and Houston—all of which made money. (Many other freestanding clinics were unable to survive, primarily because of poor management.)

"In October, 1983, the system was turned upside down," says Harper, with the introduction of diagnosis related groups, Medicare's system of establishing costs in advance for 470 medical treatment categories. Health care providers are paid a fixed amount for a procedure no matter how much it costs them to provide it. They have to push down the cost per patient of performing the procedure.

"Now hospitals want out-patient care," says Harper. "The cost-per-patient then goes down. But they still get the flat rate."

That meant that Harper's company, Medical Networks, Inc., had to swing into action quickly. Harper had already begun to plan the franchise, but never expected to get into it so quickly. After two years of preparation, franchising started in September, 1984.

"It's a heck of a lot more complicated than McDonald's," says Harper. "You're talking about nurses, doctors, narcotics, continuing medical education, monitoring, training, all with different licensing criteria, plus all the usual problems of setting up a franchise."

Harper says franchising MedStop has put him way out in front of all the isolated, locally-owned clinics and allows faster expansion than chain-owned clinics.

Standardizing tests and procedures and monitoring them by computers, says Harper, means that MedStop will get national norms and statistics not available to ambulatory care clinics.

MedStop now has 34 franchises sold—at a fee of \$35,000 each. Hospitals are the primary purchasers so far, although franchisees can be physicians, business people, insurance companies or companies that want to provide clinics for their employees.

Park Woodrow, executive director of Nazareth Community Health Services, a subsidiary of Nazareth Hospital in Philadelphia, says the hospital's first clinic has opened and is ahead of planned revenues. The second will open December 7.

Nazareth got into MedStop to broaden its patient base, now 60 percent on Medicare, and to keep an entrepreneur who was opening convenience clinics in northeast Philadelphia near the hospital from opening others even closer.

Patients like the clinics, says Woodrow: "They can go whenever they want, it's clean, the doctors are friendly, and all our people treat patients like they're special."

As for the physicians practicing at the hospital, the clinics have, as Harper said they would, generated business.

Nor has the hospital's MedStop clinic cut into the business of Nazareth's own emergency room.

Medical Networks took in \$14 million last year, of which MedStop provided 13 percent. Harper projects that MedStop will account for 35 percent of revenues in fiscal 1985 and as much as 50 percent in 1986.

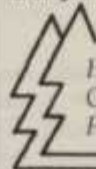
And, he says, there is nowhere to go but up.

"Convenience clinics saw 22 million patients in 1984 and will see 45 million patients in 1985," he says. "There's been a complete revolution. Now there are going to be winners and losers in health care on the provider side. But the big winners are going to be the patients." ■

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Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Veto Over-Budget Federal Spending Bills?

After six months of wrangling, the House and Senate agreed to cut the growth in spending for the year beginning October 1. House Democrats claim the cuts total \$57 billion; the Congressional Budget Office puts the figure at \$40 billion. Whatever the amount, President Reagan says he is not satisfied and promises to use his "veto pen" if any of the 13 bills that actually appropriate money bust the budget. Some say that would be hypocritical, since the White House failed to take action that might have blocked the spending plan that was passed. Should Reagan veto spending bills that exceed Congress' July budget?

2. User Fees For Aid To Small Businesses?

The Small Business Administration has survived this year's round of budget cuts. Its core programs remain intact, though more than \$2 billion over three years has been squeezed from the SBA's budget. One strategy that some say could help the agency fend off future budget cuts is to ask companies that receive SBA services, such as management counseling, to pay at least part of the cost. Others argue that tax-paying companies should not have to pay for SBA services. Should the SBA charge user fees to defray a portion of its expenses?

3. Restore The Old Speed Limits?

The 55 miles per hour speed limit was a temporary energy-saving step imposed during the 1973 oil embargo. Up to that time, states set the limit—as high as 70 mph. Now new cars are more fuel-efficient, and there are oil surpluses. Some people say that the 55 mph limit is still advisable as a fuel-saving measure—and that it saves lives. Others credit seat belts, safer cars and less drunk driving for traffic fatality reductions in recent years. Should the old speed limits be restored?

Verdicts On Privatization, Waste Cleanup, Wage Rules

Here is how readers responded to the questions in the August issue's Where I Stand poll.

	Yes	No	Undecided
Should the federal, local and state governments let the private sector perform more of the services now provided almost exclusively by government?	96.2%	2.0%	1.8%
Should business pay the entire cost of cleaning up hazardous waste dumps?	36.4%	50.2%	13.4%
Should the wage-setting Davis-Bacon Act be modified in order to let the Pentagon save on defense-related construction contracts?	88.3%	7.4%	4.3%

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Long Distance Operator

By Bryan Wilkins

William McGowan says that applying new technology lavishly in his company kept MCI alive. He automated operations to keep the

company from drowning in paper, and says that other companies are going to have to do the same.

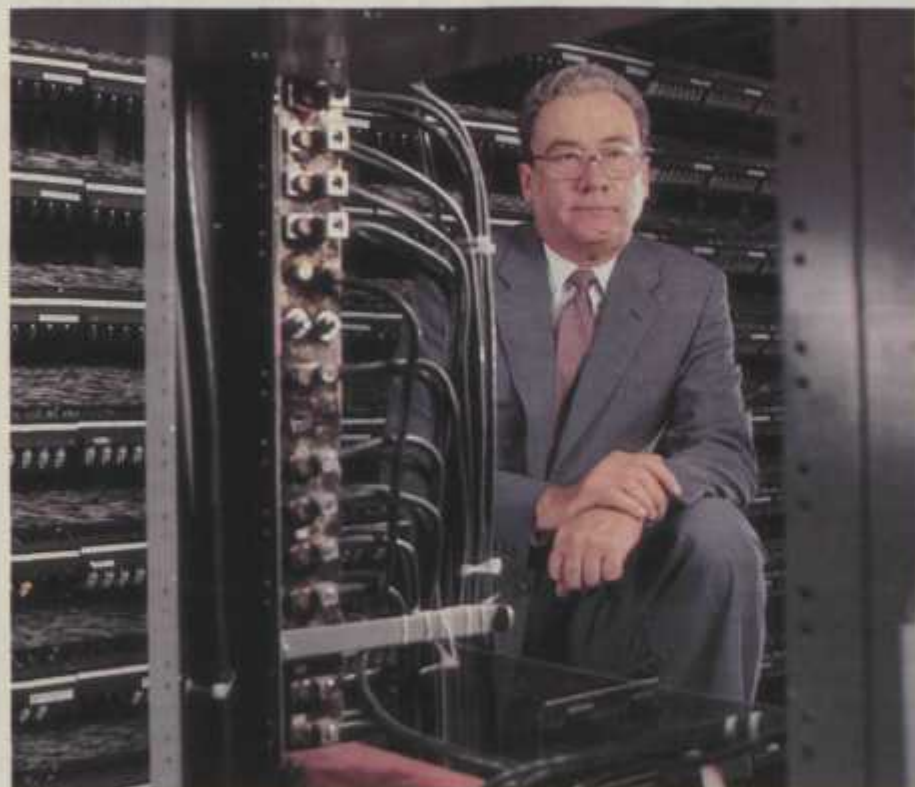


PHOTO: DENNIS BRACK—BLACK STAR

In 1969, shortly after William G. McGowan had acquired controlling interest in MCI for \$50,000, he moved it from Illinois to Washington to be closer to the regulatory battles he knew he would be fighting at the Federal Communications Commission.

Plunging into the management of the fledgling microwave communications company, McGowan lived in his office out of a suitcase, a not too surprising arrangement for a lifelong bachelor with no real interests other than his business. He eventually dispatched a secretary to find a house for him, and he never bothered to look at it before moving in.

Bill McGowan puts his company first, almost obsessively, and his manage-

Bryan Wilkins is a Washington writer specializing in telecommunications.

ment style is typified by his home-hunting style: Have a steady goal and leave the details to others.

His principal goal for years has been to open to competition long distance telephone service, long dominated by American Telephone & Telegraph Company. This idea was considered wildly eccentric at the time McGowan took control of MCI, a small, struggling company pulling in less than \$100 million annually by selling dedicated microwave communications lines between St. Louis and Chicago to companies with heavy communications traffic. The FCC and AT&T were united in the view that permitting others to enter the field would destroy the unified nationwide telephone structure.

Today MCI's gross revenues exceed \$1 billion annually, and the company has become the second largest long distance carrier in the country, engaged in

After Bill McGowan, the telecommunications industry will never be the same.

an all-out battle with AT&T. McGowan, 58, is still driving his company to new heights. Last June, he stunned the telecommunications community with his announcement that the company was entering into a strategic alliance with International Business Machines Corporation. MCI acquired Satellite Business Systems, which had been half-owned by IBM, and IBM acquired 16 percent of MCI's stock.

Until then, MCI had not figured in the plans of telecommunications managers of large corporations. Jerry King, manager of telecommunications for General Electric, says: "The deal is a perfect fit for both organizations in the sense that both are coming to each other from a position of weakness. IBM tried for 11 years with Satellite Business Systems to enter communications, but failed. MCI has made a real coup, because it hasn't been able to penetrate the lucrative world of data communications where IBM is already powerful."

The surprise move is vintage McGowan, a quick, canny maneuver that puts the opposition off balance.

McGowan keeps his goals clear by not becoming bogged down in day-to-day management at MCI. He delegates that to a team of equally hard-driven men and women while he devotes himself to carving out new strategic directions for the company.

"It has always been Bill's strength to see through to the next step while we were still working on the last one," says Jerry Taylor, president of MCI West in Denver, one of the seven subsidiaries the company created last year to parallel the seven regional Bell telephone companies created by the AT&T breakup.

McGowan says his philosophy of management is more hands-off than most corporate directors would approve. He gives employees a chance to grow in their jobs, but he also believes in moving them around, changing job functions at regular intervals.

"I have strong views about management and the tendency to create bureaucracy," says McGowan. When he was attending business school at Harvard and working summers in traditional corporate environments, he was "appalled at the number of guys who had retired on the job. They had 20 years to

LESSONS OF LEADERSHIP

McGowan (left) and Paul Rizzo, vice chairman of IBM, announce the strategic alliance of MCI and IBM.



PHOTO: JOHN PICARA—WOODFIN CAMP

go at the company, but they were more interested in cutting the grass and taking vacations, which in fact they were already on."

McGowan's personnel policies at MCI reflect his distaste for excessive rules and employer-employee etiquette. There are no days set aside to memorialize the achievements of any one employee, including McGowan. Half of all jobs are filled from the outside. "This keeps you on your toes and from becoming complacent."

That marked irreverence for following the set way of doing things traces back to his somewhat hardscrabble upbringing in the coalfields surrounding Scranton, Pa., where his father worked in the railyards.

The five children "were given responsibility at an early age, and boy, you had better carry it out if you said you were ready," he says.

He worked his way through King's College in nearby Wilkes-Barre, got a chemical engineering degree and headed for Harvard. There he decided that the slow climbs up the corporate ladder that were the destiny of many of his fellow business school students were not for him.

After graduating, he went to work for movie moguls Mike Todd and George Skouras, helping to produce one of the first wide-screen movies, "Oklahoma."

In 1958, McGowan raised capital from private investors and founded Ultrasonic Corporation. It manufactured cryogenic measurement systems that were primarily sold to the government. McGowan became a millionaire when the company went public in 1963. He later sold his interest.

McGowan began a five-year consulting stint advising other companies that were restructuring or trying to raise capital. He concentrated on companies in the new technology of computers and communications. During one of these consulting jobs he happened upon Microwave Communications Corporation, which was teetering on the edge of collapse while trying to obtain FCC approval to set up its own St. Louis-Chicago microwave route.

He bought into the company and began a successful 10-year campaign to rejigger the FCC's regulatory framework to permit other companies to get some of the country's telecommunications business. His refrain: "AT&T has 100 percent of the business, so they have nowhere to go but down."

Now, 16 years later, McGowan can see major rewards for relentlessly holding to his vision of competition.

"The younger generation is by and large comfortable with the telephone habit and the new technology of computers, so I think we have a good future," he says.

And he is confident that applying new technology lavishly in his own company kept it alive: "If MCI had not been automated with computers and telecommunications there would have been no MCI. We could not have done it; we would have drowned in all the paper."

McGowan argues that no company should try to justify the expense of new office automation systems and telecommunications links by calculating the exact return on investment. He says the justification will come after the technology becomes part of the company's method of operation.

"Companies that have done it best look at telecommunications or office automation as a strategic item and not part of administration," McGowan says.

McGowan says the frustrated executive who learns to use his personal computer will become a convert to technology, able to roam at will through budget sheets, business forecasts and travel itineraries, ferreting out a true picture of his business for himself.

"Once you see technology as a competitive tool, part of the strategic assets of the company, you have won the battle," he says. "You can remove layers of middle management who frustrate you at every turn."

With \$400 million in backing from

IBM and use of Satellite Business Systems, MCI's next big target is the business communications market.

"The Conference Board recently said that almost 75 percent of American business will be making changes in the way they communicate in the next three years, and we want to be there when they do," McGowan says.

He says that the key to MCI's future growth is the company's policy of building its own transmission facilities rather than leasing them from other suppliers.

The cost of that independence is high. McGowan has had to line up \$3 billion in credit, \$2 billion of which has already been put into plant. The company is spending an average of \$17 million a day to prepare for the push to establish itself as a ubiquitous telecommunications supplier, covering the entire country (it now reaches 80 percent).

McGowan says the strategic alliance with IBM will make it harder for corporations to brush off MCI as a technically inferior service.

MCI does not intend to ignore the home market, where it has concentrated its efforts until recently. It now has 5 percent of the market and plans to expand to 10 percent by 1990.

McGowan predicts a consolidation of full service telecommunications companies to three or four by 1990, with AT&T and MCI fighting for the lead.

The fast pace of change suits the chairman of MCI. He likes to cite these facts of its growth: In 1980, MCI had sales of \$144 million; each of its seven divisions will in 1985 report in excess of \$140 million in sales. In 1980, MCI had 40,000 customers; in 1985, more than 2 million. In 1980, MCI had 1,500 employees; in 1985, 10,000. In 1980, MCI had 7,800 network miles with 42 million circuits; in 1985, 28,000 miles with 340 million circuits. In 1980, MCI's gross investment in its plant was \$343 million; in 1985, it was almost \$4 billion.

McGowan says the hardest part—building the capacity to handle the anticipated traffic needs—is behind the company.

"Every other major competitive carrier has most of their investment in new technology in front of them, and most customers are going to make a choice about their long distance carrier in the next two years," he says. "We have a unique opportunity to seize leadership in a new industry which is in the process of rapid change." ■

Issues That Affect You

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Appropriations/ Budget	The compromise budget resolution that Congress passed substantially cuts defense spending but makes only minor reductions in domestic programs. Thus, the battle to control spending is by no means over.	Members of the House and Senate: Further spending cuts are needed to reduce the deficit and keep the economy growing. Efforts in coming months should be made to ensure that appropriations bills remain within the budget resolution's limit and to obtain further spending cuts.
Tax Reform/ Simplification	The House Ways and Means Committee has begun drafting tax reform legislation; Senate action will follow full House approval. The administration's Capital Cost Recovery System increases the cost of capital for equipment; its foreign tax credit provisions would lead to an increase in the overall income of U.S. businesses and decrease U.S. competitiveness.	Members of the House and the Senate Finance Committee: Carefully consider any proposed changes in the current tax law, especially capital cost recovery and foreign tax treatment proposals. Tax reform should stimulate capital formation, encourage technological innovation, enhance international competitiveness and help create jobs.
Line-Item Veto	Authority to veto individual appropriations would enable the President to reduce or eliminate spending for inefficient or unnecessary government programs. Currently the President is empowered to veto only an entire appropriations bill, containing funding for hundreds of programs.	Members of the House and Senate: Support presidential line-item veto authority. The line-item veto would promote fiscal discipline and reduce wasteful government spending.
Grove City	Congress is considering various responses to the Supreme Court's February, 1984, decision in <i>Grove City College v. Bell</i> , a decision that restricted application of federal civil rights laws to institutions receiving federal funds. One bill would subject businesses to new affirmative action rules and possible private lawsuits.	Members of the House and Senate: Support the administration's alternative bill for simple reversal of the Supreme Court's <i>Grove City</i> decision. Oppose broad expansion of federal regulatory authority under the guise of reversal.
Comparable Worth	Comparable worth legislation is moving quickly through Congress. Bills have been considered in both houses that would require a comparable worth evaluation of the federal work force—a value would be determined for each job based on a subjective point system. This legislation would set a precedent that could be applied to pay scales in the private sector.	Members of the House and Senate: Oppose government-mandated comparable worth legislation that would interfere with the free market system and be extraordinarily costly to implement nationwide. Implementation of the comparable worth concept would be a serious error.
Superfund	The five-year, \$1.6 billion toxic waste cleanup program known as Superfund is up for reauthorization. (It may not be reauthorized this year; there may be a simple, one-year extension.) There is debate over the level of funding and the method used to raise revenue. Businesses will be affected by the taxing authority used.	Members of the House and Senate: Reauthorize Superfund at reasonable funding levels. The fund should be structured to meet cleanup goals without unnecessary expense. General revenues should be the primary source of funding. Oppose any new or increased taxes for Superfund.

Editorials

Need for realism in Congress; getting tough on trade; blow to free enterprise.

Washington's Potential For Pretense

Congress has backed itself into a position where it might be tempted to rely on the legislative equivalent of pulling rabbits out of hats. The idea would be to give the appearance that the lawmakers are dealing effectively with many of the major remaining issues of their 1985 session.

Washington seems to offer an especially attractive stage for those who try to convey the impression that something is really happening when that is not actually the case. The potential for such pretense is particularly high right now.

The lawmakers left for their summer recess amidst heavy self-praise for adopting a fiscal restraint plan they proffered as a cure for red-ink spending. But one of the leading items on the agenda awaiting them on their return was a proposal to increase the federal



PHOTO: DAVID WOODHILL

debt ceiling to \$2 trillion—double its level just four years ago.

While insisting that any tax reform plan they pass will establish a system that is simpler and fairer than the

present one, members of Congress are preparing to take up tax proposals that would, in many respects, have just the opposite effect. Some of those recommendations are in the plan the White House sent up to Capitol Hill, while many more are being proposed by the lawmakers themselves.

They also are to take up farm problems caused in part by shrinking export markets, along with broad protectionist trade legislation that would shrink those markets even further as other nations retaliated. (A separate editorial on trade policy appears below.)

How has Congress managed to create those and similar quandaries for itself? Mostly by trying to convince the public that it can produce easy solutions to complex problems. The public, however, wants realism, not illusions from its elected officials.

A Time To Be Tough About Unfair Trade

The Reagan administration's support of free trade is the most effective stand it can take in the long-term interests of the nation's economic health. Competition is as essential to the proper functioning of world markets as it is to domestic markets.

But free trade must be a two-way street. The street is definitely not two-way when the United States opens its markets to goods from countries that refuse to reciprocate. Some of the major beneficiaries of this country's free trade policies subvert those policies. The result is an enforcement vacuum that the all-out protectionists are rushing to fill—and will fill, unless the Reagan administration and those who support its basic trade policies act quickly and decisively.

The major weakness in the protectionists' stand is their assumption that the answer to the problem lies in throw-

ing up barriers around this country, not in removing them from other countries.

Unfair and unreasonable policies of America's trading partners are keeping billions of dollars of U.S. goods out of export markets. The administration has begun to move against three specific cases of unfair trade, and it has served notice it will challenge other barriers if corrective action is not taken by December 1. As the President's chief trade negotiator commented, "We cannot afford to turn the other cheek any longer."

If necessary, President Reagan should consider using the ultimate weapon available to him—close U.S. markets to nations that refuse to abide by a fairness standard. In the absence of strong action by the administration, Congress might well enact protectionist legislation that could bring down the whole structure of world trade.

City Hall Blight

"During the drought, we are not allowing anyone to sell water for commercial use." That statement by a New York City official is yet another example of why Americans have become disenchanted with the idea that government offers the first and best hope of solving problems.

The official was explaining why the drought-stricken city would not allow an energetic entrepreneur to sell to businesses for industrial purposes the 210,000 gallons of water he had brought in by barge. Such businesses' operations had been threatened by a city-ordered cut in consumption.

New York City argues that it could not adequately monitor private sale of water. So a city unable to meet its own responsibility to supply water prohibits business' purchases. Well, nobody ever said a businessman's lot is necessarily a happy one.

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